

The Auditor-General
Audit Report No.4 2004–05
Performance Audit

Management of Customer Debt

Centrelink

Australian National Audit Office

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of Australia 2004

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Canberra ACT
2 August 2004

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Management of Customer Debt*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett', is positioned above the printed name.

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Contents

Abbreviations	7
Glossary	8
Summary and Recommendations	11
Summary	13
Background	13
Key findings	14
Overall audit conclusion	18
Recommendations	18
Centrelink response	19
Recommendations.....	20
Audit Findings and Conclusions	23
1. Introduction.....	25
Overview of debt management in Centrelink	25
Audit approach	26
Previous reviews	29
Structure of the report	30
2. Framework and Processes to Manage Customer Debt in Centrelink.....	31
Main characteristics of Centrelink customer debt	31
Business management of customer debt in Centrelink.....	35
Conclusion.....	45
3. Performance Monitoring of Debt Management in Centrelink.....	47
Introduction.....	47
External performance monitoring of debt management in Centrelink.....	47
Internal performance monitoring of debt management in Centrelink.....	54
Measures of customer satisfaction with debt	56
Productivity and cost efficiency of debt management in Centrelink.....	58
Conclusion.....	59
4. Debt Prevention.....	60
Background	60
Adequacy of FaCS and Centrelink analysis of reasons for and causes of debts	63
Centrelink's operational debt prevention activities	66
Measuring effectiveness of debt prevention.....	74
Conclusion.....	75
5. Identification of Overpayments.....	77
Introduction.....	77
Identification of debt by review (compliance and non-compliance)	77
Customer Service Officer identification of overpayments (customer initiated re-assessments).....	85
Automatic identification of overpayments.....	86
Integration issues	88
Conclusion.....	89

6. Debt Raising	90
Introduction.....	90
Background	91
Debt raising processes in the network: specialist debt raising teams.....	95
Compliance debt raising.....	102
Waivers.....	104
Conclusion.....	110
7. Debt Recovery.....	111
Introduction.....	111
Background	111
Centrelink performance in recovering debts	113
Adopting industry better practice.....	116
Implementing effective debt recovery structures in all relevant Areas.....	120
Standardising debt recovery processes throughout Areas	123
Quality of customer service in recovering debts	126
Future of recovery operations within Centrelink.....	127
Conclusion.....	128
Appendices	131
Appendix 1: Main characteristics of Centrelink customer debt	133
Appendix 2: Administration of debt management in Centrelink	141
Appendix 3: Centrelink’s and FaCS’ responses to the audit.....	150
Index	158
Series Titles.....	160
Better Practice Guides.....	161

Abbreviations

AAT	Administrative Appeals Tribunal
ANAO	Australian National Audit Office
ARO	Authorised Review Officer
ASO	Area Support Office
BAF	Business Assurance Framework
BPA	<i>FaCS–Centrelink Business Partnership Agreement 2001–2004</i>
CFM	Centrelink Funding Model
CSC	Customer Service Centre
CSO	Customer Service Officer
DMIS	Debt Management Information System
DPMO	Debt Prevention and Monitoring Officer
FaCS	Department of Family and Community Services
FAO	Family Assistance Office
IEB	Information and Evidence Base
ISIS	Income Security Information System
KPI	Key Performance Indicator
NSO	National Support Office
ODM	Original Decision-Maker
OOF	Outcomes and Outputs Framework
PBS	Portfolio Budget Statements
QOL	Quality On-Line
RSS	Random Sample Survey
SCM	Strategic Cost Management
SSAT	Social Security Appeals Tribunal
TIPS	National Tip Off Processing Team
VCW	Value Creation Workshop

Glossary

Authorised Review Officer (ARO)	A Centrelink Officer responsible for reviewing the decisions of the Original Decision-Maker (ODM) at the request of the customer.
Benchmark debt	Debt relating to the overpayment of social security benefits to customers, excluding Family Tax Benefit reconciliation debt.
Business Partnership Agreement (BPA)	<i>FaCS-Centrelink Business Partnership Agreement 2001–2004.</i> This document provides the basis for the relationship between the two Commonwealth agencies, which is a unique arrangement characterised by purchaser/provider responsibilities as well as partnership and alliance.
Compliance Review	A review conducted by Centrelink as part of its detection and review program that specifically aims to identify non-compliance by customers.
Debt Prevention and Monitoring Officer (DPMO)	The role of the DPMO is to identify and initiate enhancements in work practices, especially: the introduction of new or best practices aimed specifically at minimising and preventing debts and to assist Customer Service Officers (CSOs) to continually improve customer awareness of their notification obligations.
Mercantile Agent	A private sector agency specialising in the collection of arrears or debts.
Multical	Centrelink's on-line system tool that assists in accurately calculating a customer's debt.
Non-stimulus program/payment	A social security program where customers are not required to provide Centrelink, at regular intervals, with details of their personal circumstances to qualify for payment.
Original Decision-Maker (ODM)	The CSO who made the decision to raise the debt against the customer.
Quality On-Line (QOL)	Centrelink's on-line quality assurance tool, where either 5 per cent or 100 per cent of a CSO's work, depending on their experience, is referred to a qualified officer, who checks for accuracy.

Random Sample Survey (RSS)	A quality assurance mechanism used by FaCS, through Centrelink, where a sample of customer records is drawn to verify the customers' entitlements.
Scriptor	A scriptor is a work-flow tool developed by Centrelink which aims to standardise and automate processes used by CSOs to enter data into the various screens of the payment systems. A scriptor also assists CSOs with pre-scripted documents to be placed on the customer's record.
Stimulus program/payment	A social security program where customers have to provide to Centrelink, at regular intervals, details of their personal circumstances and in some cases job seeking activities, in order to qualify for the continuation of payments by Centrelink.
Value Creation Workshop (VCW)	A Value Creation Workshop is designed to give Centrelink staff and managers an opportunity to understand customer behaviour and attitudes by conducting a facilitated workshop with a sample of Centrelink customers.
Withholdings	A system of debt recovery where Centrelink withholds a portion of a customer's social security payment at each payment cycle until the debt is fully recovered.

Summary and Recommendations

Summary

Background

1. Managing customer debts related to income support and pension payments is a major issue for Centrelink. At 30 June 2003, outstanding 'benchmark' debt was \$967 million, owed by approximately 600 000 individual social security recipients.¹ The magnitude of this debt, and the burden often placed on the financial capacity of affected customers, mean that it is important that Centrelink manages debt efficiently and effectively.

2. The debt management process comprises four main elements—prevention, identification, raising and recovery. Debt management forms part of Centrelink's core operations, and links to programs targeting payment correctness and customer compliance.

3. Debts arise primarily from customers failing to notify Centrelink of changes in circumstances or providing incorrect information. Debts can also result from Centrelink administrative error. Some debts occur out of the correct operation of the legislation.² In general, these debts must be repaid. However, where a debt arises solely from Centrelink error, and where the customer could not reasonably be expected to know they were being overpaid, the debt must be waived.³

4. The objective of this audit was to assess whether Centrelink effectively manages its benchmark customer debt consistently across its network, ensuring integrity of payments made on behalf of the Department of Family and Community Services (FaCS), while also providing appropriate levels of customer service.

¹ Benchmark debt refers to debts related to income support and pension payments and excludes Family Tax Benefit reconciliation debts. This audit has not examined Family Tax Benefit reconciliation debts, as the mechanisms related to how these debts arise, are detected and recovered are quite different to the bulk of Centrelink debts. In addition, continuing changes occurring in the Family Tax Benefit program mean that a future separate, comprehensive audit would be better placed to consider debts relating to Family Tax Benefit.

² For example, where a person who has received an advance payment goes off payment before the advance has been repaid, the outstanding advance amount is raised as a debt.

³ As prescribed in the *Social Security Act 1991*, s1237A.

Key findings

Frameworks and processes to manage customer debt in Centrelink (Chapter 2)

5. The incidence of customer debt in Centrelink is relatively low. For example, at 30 June 2003, outstanding customer debt represented approximately one third of one per cent of relevant Centrelink payments of around \$260 billion distributed since its inception on 1 June 1997. However, the absolute magnitude of outstanding debt is high, approaching \$1 billion at 30 June 2003, having increased by around 20 per cent over that of the previous two years. The Australian National Audit Office (ANAO) was not in a position to interpret this performance. To make such an assessment, the ANAO would require further information than was available during this audit—from FaCS about its view on the appropriateness of this magnitude of debt, and from Centrelink about the cost of managing the debt.

6. Centrelink and FaCS have developed a framework that provides the opportunity to effectively implement all elements of debt management. However, communication between the two organisations could be improved, especially in determining and implementing debt prevention and identification programs. Similarly, Centrelink could improve communication flows between the various teams within the agency responsible for debt prevention, identification and recovery.

7. Centrelink has many strategies, policies and processes that either directly, or indirectly, affect debt management. Many debt management initiatives undertaken in the past one to two years have improved debt management processes and practices, or promise to do so in the future. These initiatives have included enhanced debt identification techniques, and centralising and increasing the efficiency of debt raising operations.

Performance monitoring of debt management in Centrelink (Chapter 3)

8. FaCS and Centrelink have agreed with the ANAO's suggestion to improve debt key performance indicators (KPIs) by supplementing the recently revised set of KPIs with measures of the effectiveness of debt prevention and identification, and the accuracy of debt raising, as well as reporting on the magnitude of outstanding debt. However, any move to reporting against these improved KPIs needs to await the implementation of systems to generate suitably robust data.

9. The ANAO found that Centrelink did not monitor customer satisfaction with its debt management services, nor fully measure its debt

management resourcing and cost, to ascertain relative productivity and cost efficiency, and achieve future savings.

Debt prevention (Chapter 4)

10. The ANAO found that Centrelink has improved the profile and importance of debt prevention in the agency, particularly by clearly articulating its objectives in the *Debt Servicing Strategy 2001–04*.

11. Similarly, the ANAO notes recent improvement in Centrelink’s debt prevention strategy development, involving a move away from reliance on anecdotal information that led to disjointed and ad-hoc efforts in the past. Centrelink has also recently developed, and begun to implement, debt prevention project arrangements and protocols, to promote debt prevention measures based on empirical research.

12. The ANAO found that Centrelink’s Debt Services Team was facing difficulties in coordinating debt prevention and management initiatives across the agency, including monitoring the performance of debt prevention activities in Areas⁴, and encouraging Areas to adopt better debt prevention practices. To improve leadership and coordination of debt prevention and management initiatives by the Debt Services Team, Centrelink may benefit from reviewing the implementation of debt prevention activities across the network, to ascertain better practice.

13. The ANAO found that Centrelink does not effectively measure the impact of its debt prevention activities. At the time of drafting this report, Centrelink was in the process of revising internal indicators of debt prevention performance.

Identification of overpayments (Chapter 5)

14. Centrelink identifies debts through its compliance framework, which includes:

- compliance reviews—comprising data matching, tip-offs, investigations and surveillance;
- program reviews—an activity initiated by Centrelink to ascertain whether a customer is receiving his/her correct entitlement, for example, cyclic reviews (such as every four weeks) and event-based reviews (such as the birth of a child);
- Service Profile reviews—a means of identifying which customers need a more targeted level of service to assist them to meet program

⁴ ‘Areas’ refer to geographic units administered by Centrelink’s Area Support Offices.

outcomes. When fully implemented, Service Profiling will replace all former program reviews for all payments; and

- customer initiated re-assessments—where a customer voluntarily advises Centrelink of a change in his/her personal circumstances.

15. The ANAO found that these procedures were generally effective in identifying debts. However, compliance reviews accounted for 76 per cent of the debts identified through reviews, while representing only 19 per cent of the number of reviews, in 2002–03. Accordingly, Centrelink may be able to improve the effectiveness of identification activities by either focussing more intensively on compliance reviews, or improving the performance of other methods of review.

16. In this regard, the use of Service Profiling as a risk-based substitute for program reviews, offers Centrelink the opportunity to further improve its debt identification operations through better targeting of its resources.

17. Centrelink is currently improving internal coordination through the appointment of a National Manager to manage service delivery issues in Profiling and Reviews, and through the establishment of a specific business team to manage the FaCS relationship for profiling across payments.

18. The ANAO found that the current overpayment identification process appears effective, in terms of generating substantial volume and value of debts. However, the ANAO found that ‘compliance’ and ‘non-compliance’ processes used to identify overpayments could be better aligned and integrated to maximise the chances of effective identification of an overpayment, as closely as possible to the time when the overpayment first occurs.⁵

Debt raising (Chapter 6)

19. The ANAO considers Centrelink’s restructuring of the non-compliance debt raising process in mid-2003, which involved the introduction of specialist debt raising officers and teams, has the potential to significantly improve the agency’s administration of this aspect of debt management. Together with improved technical support tools for debt raising officers, restructuring the non-compliance debt raising process within Centrelink appears to have improved the timeliness and accuracy of debt raising. However, confirmation of these improvements awaits the Post Implementation Review of the debt restructuring exercise, which commenced in June 2004.

⁵ Identifying debts early assists Centrelink by reducing costs associated with managing debts, and by improving debt recovery. Identifying debts early, assists Centrelink customers by reducing the magnitude of debt that needs to be repaid, as well as any personal anxiety and/or concern that may be experienced.

20. The recent restructuring, combined with the review of debt processing that has been carried out over the past three years, has also improved the attitude of Centrelink staff within the network to processing debt. Accurate and timely raising of debt is now regarded as an important part of processing customers' details.

21. While Centrelink has undertaken major restructuring of its non-compliance debt raising functions, there has been no accompanying reform of its compliance-based debt raising processes. This is despite compliance debt representing a significant proportion of benchmark debt, and the adverse results of Centrelink's own October 2002 review of debts raised by Compliance Officers for ABSTUDY payments, which found high rates of error for compliance debts.⁶

22. During fieldwork for this audit, the ANAO interviewed a number of Centrelink's Authorised Review Officers and also held discussions with relevant external stakeholders. The ANAO noted the views of each of these groups that Centrelink Customer Service Officers are often reluctant to waive debts, with the exception of the most obvious of cases, where Centrelink has been at fault.

Debt recovery (Chapter 7)

23. Centrelink currently has inconsistent debt recovery structures and processes across its network. The ANAO found that debt recovery was left to individual Area Support Offices to administer. As a result, there were significant differences across the network in the levels of skills of Debt Recovery Officers, the likely levels of customer service, and the performance of Debt Recovery Teams. However, the impending restructure of Centrelink's recovery operations has the potential to considerably improve the present situation.

24. Centrelink's arrangement with its contracted mercantile agent was found to be an effective way of recovering older debts that are not cost effective for Centrelink to pursue with internal resources. The mercantile agent's superior technology and processes allowed it to further pursue these debts, providing a valuable addition to Centrelink's recovery operations. As well, this contractual arrangement allows Centrelink to access better practices of this specialist recovery operation, which Centrelink should again review the merits of adopting.

25. The ANAO observed a lack of adherence to relevant policy guidelines in place at the time of fieldwork, concerning the repayment of debts via credit cards. This applied to Centrelink Recovery Officers and staff of the mercantile

⁶ Centrelink, *ABSTUDY Debt Prevention Strategy*, October 2002.

agent. It is important that Centrelink continues to monitor adherence to policy guidelines concerning the repayment of debts via credit cards, so that the use of credit cards does not place undue financial hardship on Centrelink debtors.

26. One of the objectives of debt recovery by Centrelink is to recover money owing to the Commonwealth without causing 'real financial hardship'⁷ to the customer. The ANAO found that Centrelink did not measure, or monitor, customer perceptions of the recovery process. Accordingly, Centrelink was unable to ascertain whether or not it had met this objective.

Overall audit conclusion

27. Centrelink has significantly improved the effectiveness of many debt management processes and practices over the past one to two years. However, customer debt continues to increase rapidly, making it important that Centrelink further improve its debt prevention, identification, raising and recovery activities in order to safeguard the Government's expenditure on, and effectiveness of, its social welfare programs.

28. Despite Centrelink's overall commitment to providing consistent services to customers across its network, the ANAO concluded that Centrelink did not manage debt consistently across its network. While Centrelink's debt identification and raising functions generally used similar processes, that produced comparable results, debt prevention and recovery varied widely in application and performance across the Centrelink Areas examined, producing inconsistent outcomes for the agency and its customers.

29. Centrelink was not able to inform the ANAO about the standard of service it provides to customers with debts, as it does not collect information about customer satisfaction with debt servicing activities. This lack of monitoring also made it more difficult for Centrelink to ascertain whether its debt recovery activities placed customers in 'real financial hardship'. As well, it impeded Centrelink's capacity to develop strategies to improve the service it provides to customers, when managing their social welfare debts.

Recommendations

30. The ANAO made nine recommendations to improve Centrelink's debt management capacity. Centrelink has agreed to all recommendations, one with qualification. At the time of report drafting, Centrelink had begun to implement four of these recommendations.⁸

⁷ As specified by Centrelink, in document 107.11210, *Roles and quality service standards for Centrelink recovery staff*.

⁸ Centrelink has begun to implement recommendation Nos. 1, 2, 5, and 8.

Centrelink response

31. Appendix 3 contains detailed comments provided by Centrelink on the proposed report. Centrelink's summary response appears below.

Centrelink acknowledges the effort made by the ANAO to understand the challenges facing our organisation and the work already undertaken over the past one to two years to improve debt management processes and practices.

These initiatives have included enhancing the strategic focus for debt management and debt prevention project arrangements. These initiatives have improved the profile and importance of debt prevention within Centrelink. Other initiatives include enhanced debt identification techniques, improved technical support tools and restructuring of service delivery which have improved timeliness and accuracy of debt processing.

Centrelink is continuing to look for areas for improvement in debt management and will be implementing further initiatives in the near future. These include new arrangements for debt recovery that will be implemented by 1 October 2004.

Recommendations

**Recommendation
No.1
Para. 2.40**

The ANAO *recommends* that, in developing a replacement for Centrelink's current *Debt Servicing Strategy*, the agency:

- continues to improve communication flows between teams within Centrelink responsible for debt prevention, identification and recovery; and
- aligns debt risks to compliance and service delivery risks, enabling greater efficiencies in debt management activities.

Centrelink response: Agree.

**Recommendation
No.2
Para. 3.22**

The ANAO *recommends* that FaCS, in consultation with Centrelink, review the external performance monitoring regime for debt management in Centrelink to promote better practices and performance improvements. In particular, the ANAO recommends that the review consider the benefits of:

- replacing the current debt key performance indicators in the FaCS–Centrelink Business Partnership Agreement with indicators that measure the effectiveness of the four major phases of debt management (prevention, identification, raising and recovery); and
- revising the Outcome–Output measures in both FaCS and Centrelink Portfolio Budget Statements to encompass these measures, which would then be reported against in the agencies' respective Annual Reports to the Parliament.

Centrelink response: Agree with qualification.

FaCS response: Agree with qualification.

Recommendation No.3
Para. 3.39

The ANAO *recommends* that Centrelink monitor customer satisfaction with the administration of its debt raising and recovery activities, and use those results to improve debt service delivery.

Centrelink response: Agree.

Recommendation No.4
Para. 4.48

The ANAO *recommends* that Centrelink review the implementation, including funding arrangements, of debt prevention activities across its network, and determine whether this implementation supports effective leadership and coordination of debt prevention and management initiatives by Centrelink's Debt Services Team.

Centrelink response: Agree.

Recommendation No.5
Para. 4.82

The ANAO *recommends* that, to help support debt prevention initiatives, Centrelink develop a set of internal performance indicators that accurately measure, and/or assess, the effectiveness of its debt prevention activities.

Centrelink response: Agree.

Recommendation No.6
Para. 6.62

The ANAO *recommends* that Centrelink undertake a review of the accuracy of the value of debts determined and raised by its Compliance Teams. If the results of this analysis identify low rates of accuracy, immediate remedial action is advisable.

Centrelink response: Agree.

Recommendation No.7
Para. 6.91

The ANAO *recommends* that Centrelink analyse the appropriateness of applying debt waivers throughout its network, especially at the Original Decision-Maker level in Specialist Debt Raising Teams. If the results of this analysis identify low rates of appropriateness or consistency, immediate remedial action is advisable.

Centrelink response: Agree.

**Recommendation
No.8
Para. 7.48**

The ANAO *recommends* that, to increase the efficiency and effectiveness of debt recovery operations, as well as customer service, Centrelink:

- proceed with the planned implementation of a nationally-based approach to its recovery operations, which provides guidance to Areas about recovery structures, processes and practices; and
- upgrade the recovery infrastructure, including the telephonic and online systems, to ensure customers can readily access Recovery Officers.

Centrelink response: Agree.

**Recommendation
No.9
Para. 7.61**

The ANAO *recommends* that Centrelink continue with the development of:

- a national training program for Recovery Officers to provide consistency of approach as well as adequacy of skills, and which would support a high level of performance, throughout the Centrelink network; and
- debt recovery scriptors for use by Recovery Officers, to improve consistency of advice and decision-making.

Centrelink response: Agree.

Audit Findings and Conclusions

1. Introduction

This chapter provides background information on debt management in Centrelink. It explains the audit approach and describes the structure of this report.

Overview of debt management in Centrelink

1.1 Centrelink delivers payments and services on behalf of 25 Commonwealth client agencies. However, its predominant activity is to administer and distribute social security payments to eligible recipients on behalf of the Department of Family and Community Services (FaCS).⁹ In 2003–04, Centrelink expected to pay over \$62 billion in social security payments to around 6.3 million customers.

1.2 This magnitude of expenditure, and its criticality to many recipients, reinforces the need for customers to receive their correct entitlement—no more and no less. However, many aspects of Centrelink’s operating environment¹⁰ mean that overpayments and underpayments inevitably occur. It is the responsibility of Centrelink and FaCS, together with their customers, to minimise the incidence and impact of incorrect payments.

1.3 This audit focuses on overpayments. In accordance with the debt creation, recovery and non-recovery (waiver and write-off) provisions of the Acts¹¹ under which it makes payments, Centrelink has a duty of care to investigate, accurately calculate, and recover, overpayments. A legally recoverable debt may be raised if, and only if, the overpayment is covered under debt creation provisions of the relevant legislation.

1.4 Debts arise primarily from customers failing to notify Centrelink of changes in their circumstances or providing incorrect information. Debts can also result from Centrelink administrative error. However, some debts can also occur out of the correct operation of the legislation. For example, where a person who has received an advance payment goes off payment before the advance has been repaid, the outstanding advance amount is raised as a debt.

1.5 In general, these debts must be repaid. However, s1237A of the *Social Security Act 1991* provides that, where a debt arises solely from Centrelink

⁹ Payments to customers on behalf of FaCS represent 80 per cent of Centrelink distributions. Other major agencies for which Centrelink delivers services include the Australian Taxation Office, the Department of Employment and Workplace Relations, and the Department of Education, Science and Technology.

¹⁰ Such as: the number of customers, and their variety of circumstances and behaviour; the complexity of payment arrangements; and Centrelink processing systems and practices.

¹¹ *Social Security Act 1991* and the *Social Security (Administration) Act 1999*.

error, and where the customer could not reasonably be expected to know he/she was being overpaid, the debt must be waived.¹²

1.6 Managing customer debt is a major issue for Centrelink. Outstanding customer debt has a high financial value and directly affects many Australian citizens. In addition, the burden that debts often place on the financial capacity of affected Centrelink customers and their personal welfare, the trend in recent years toward increasing numbers and value of customer debts, and Parliamentary and media attention given to debts owed to Centrelink, further underline the importance of debt management as an issue for Centrelink.

1.7 Debt management covers prevention/deterrence, identification, raising, debt recovery and compensation recovery¹³ and is integral to Centrelink's core operations. Moreover, the main programs targeting payment correctness and customer compliance directly affect debt management. Given the diverse and extensive inter-relations between the main elements of debt management and other Centrelink activities, debt management responsibilities are distributed throughout Centrelink. Centrelink's Debt Services Team has the prime responsibility for co-ordinating many debt management issues and the implementation of Centrelink's *Debt Servicing Strategy*.

Audit approach

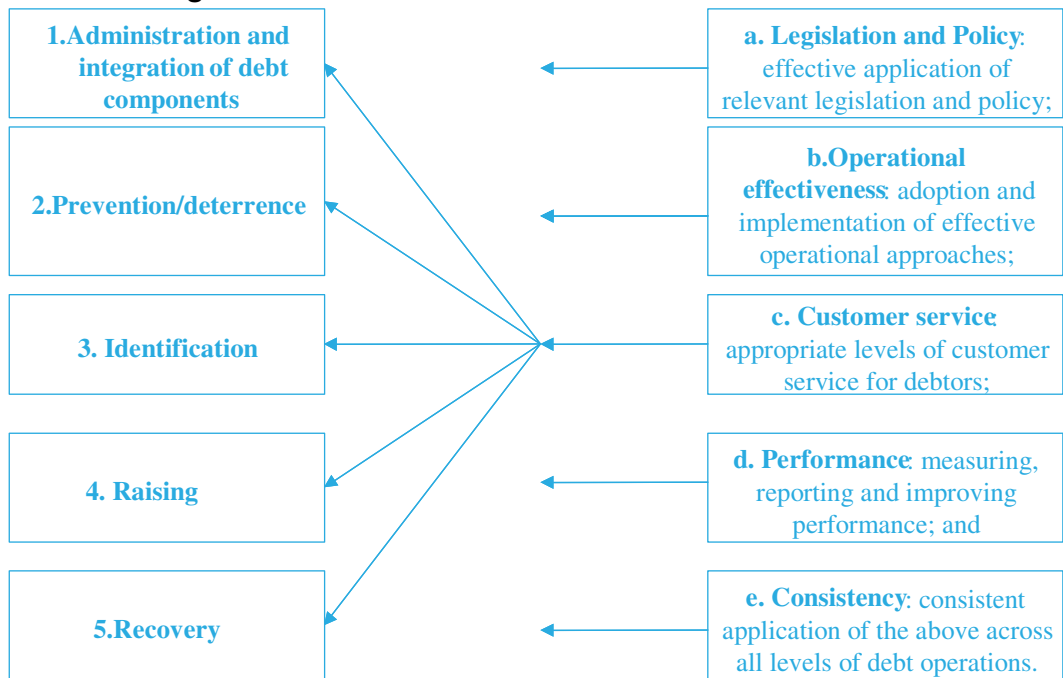
1.8 The objective of this audit was to assess whether Centrelink effectively manages its benchmark customer debt¹⁴ consistently across its network, ensuring integrity of payments made on behalf of FaCS, while also providing appropriate levels of customer service.

1.9 The audit examined debt very broadly. It assessed the five main components of Centrelink debt against five criteria, as Figure 1.1 outlines.

¹² This audit focuses on overpayments, but implicitly covers advance payments in sections examining debt raising and recovery.

¹³ Compensation recovery refers to the recovery of social security payments to customers that receive injury or illness compensation payments. Centrelink normally arranges any such repayment with a customer's insurance company or compensation provider.

¹⁴ Benchmark debt refers to debts related to income support and pension payments and excludes Family Tax Benefit reconciliation debts.

Figure 1.1**Audit coverage and criteria**

1.10 The audit assessed components of debt that covered the major elements of debt management in Centrelink. In addition, the audit examined the integration of the main elements of debt management, against the five criteria listed above.

1.11 These five criteria were selected as a basis for the audit's assessment of Centrelink's debt management against compliance, performance and customer service requirements.

1.12 The audit examined debts arising in programs Centrelink delivers on behalf of FaCS, including all income support and pension payments, but excluding Family Tax Benefit reconciliation debts. Due to continuing changes occurring in the Family Tax Benefit program, a future separate, comprehensive audit would be better placed to consider debts relating to the Family Tax Benefit Program. Furthermore, the Commonwealth Ombudsman completed a major assessment of the Family Tax Benefit in February 2003.¹⁵

¹⁵ See, Commonwealth Ombudsman, *Own Motion Investigation into Family Assistance Administration and Impacts on Family Assistance Office Customers*, February 2003.

1.13 In total, this audit covers around 70 per cent of Centrelink disbursements and 60 per cent of debts associated with all programs that Centrelink delivers on behalf of all agencies. This represents a large coverage of Centrelink debt activities, and addresses the major administrative and process issues associated with debt management in Centrelink.

Audit methodology

1.14 The audit methodology included:

- identifying better practice debt management procedures;
- examining Centrelink's debt management policies and procedures;
- analysis and profiling of Centrelink's total debt portfolio;
- interviews with Centrelink managers, key National Support Office staff and relevant Area Support Office, Call Centre and Customer Service Centre staff with responsibility for debt management policy and operations in all States and Territories of Australia;
- focus group discussions with selected Centrelink staff;
- analysis of key Centrelink documentation, files and Intranet;
- discussions with representatives from FaCS; and
- discussions with community and government stakeholders throughout Australia.

1.15 At the outset of the audit, the Australian National Audit Office (ANAO) considered undertaking a stratified sample of debt cases to assess accuracy and consistency of decision-making in calculating and determining debts. However, the ANAO did not proceed with this exercise, as Centrelink had recently collected similar information from its own samples, which generally provided adequate information. In the cases where adequate sample data was not available from Centrelink, the ANAO has either suggested, or recommended, that Centrelink undertake sampling exercises and respond appropriately to the findings. The ANAO may assess the adequacy of these responses in future follow-up audits.

1.16 Fieldwork for the audit was conducted primarily from September to November 2003. Centrelink was implementing substantial changes to debt management administration, processes and practices over this period and throughout the first half of 2004. The audit has reflected many of these changes, noting their partial implementation at the time of fieldwork and, where possible, commenting on the appropriateness of proposed reforms.

1.17 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$487 000.

Previous reviews

1.18 The ANAO has not previously explicitly audited debt management in Centrelink. However, the ANAO has examined issues relevant to debt management in a number of audits. For example, audits of the Parenting Payment Single Program¹⁶ and the Age Pension,¹⁷ assessed Centrelink's strategies for promoting correct processing of payments and the compliance framework. In 2001, the ANAO also examined whether Centrelink had implemented appropriate fraud control arrangements.¹⁸

1.19 Centrelink's internal audit team released a report on Debt Management in August 2002.¹⁹ The objective of the internal audit was to determine whether debt management strategies, and the underlying systems, processes and controls over debt, were operating effectively and efficiently. The report made a number of recommendations to improve the identification, raising, recovery, monitoring and review of debts. This current audit assessed the appropriateness of the internal audit recommendations, and Centrelink's progress in implementing them.

¹⁶ ANAO, 2003, Audit Report No.44 2002–03 *Review of the Parenting Payment Single Program*, March.

¹⁷ ANAO, 2002, Audit Report No.17 2002–03 *Age Pension Entitlements*, November.

¹⁸ ANAO, 2001, Audit Report No.26 2001–02 *Management of Fraud and Incorrect Payment in Centrelink*, December.

¹⁹ Centrelink, 2002, *Debt Management*, Audit Report, August.

Structure of the report

1.20 This report contains seven chapters, as outlined in Figure 1.2.

Figure 1.2

Structure of the report



1.21 The report also contains three appendices. Appendix 1 provides a detailed discussion of the characteristics of Centrelink debt. Appendix 2 supplements Chapter 2 by presenting tables explaining Centrelink's role in managing customer debt. Appendix 3 contains detailed responses by Centrelink and FaCS to the proposed audit report.

2. Framework and Processes to Manage Customer Debt in Centrelink

This chapter discusses the main characteristics of Centrelink customer debt and examines Centrelink's framework and business processes for managing debt.

Main characteristics of Centrelink customer debt

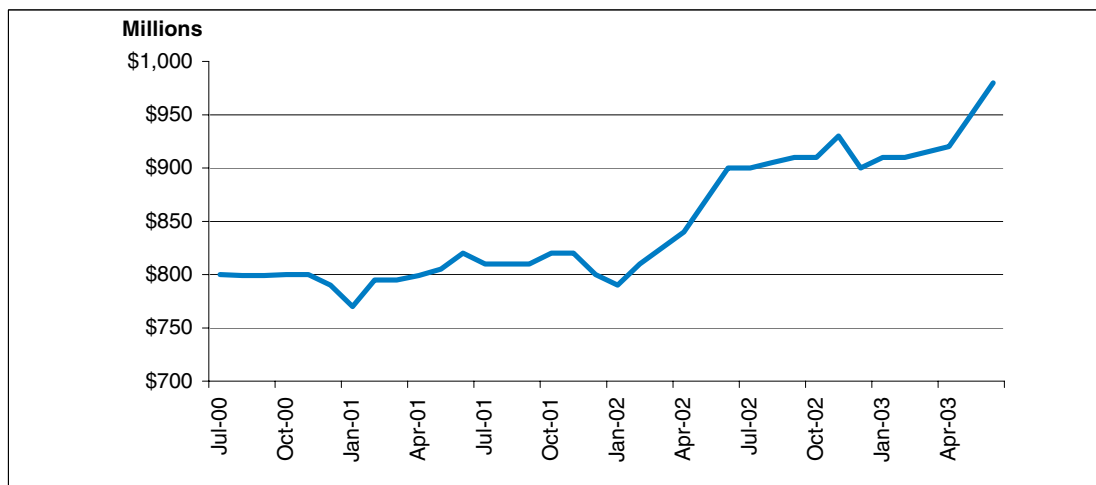
2.1 To understand the main characteristics of Centrelink customer debt, the ANAO examined Centrelink's current debt base, and related information. The results are outlined briefly below, and in more detail in Appendix 1.

Magnitude of identified outstanding benchmark debt

2.2 At 30 June 2003, outstanding benchmark debt was \$967 million (see Figure 2.1), owed by around 600 000 Centrelink customers.²⁰ The value of benchmark debt has increased rapidly in recent years, increasing by over 20 per cent in the two years from 30 June 2001 to 30 June 2003.

Figure 2.1

Value of outstanding benchmark customer debt, July 2000 to June 2003^a



Note: (a) This excludes Family Assistance Office outstanding debt, which was valued at around \$600 million, at 30 June 2003.

Source: Adapted from Centrelink, *Analysis of Customer Debt*, August 2003.

²⁰ As discussed in Chapter 1, Centrelink refers to debt arising from Centrelink's distributions of payments on behalf of FaCS, excluding Family Tax Benefit reconciliation debts, as benchmark debt. The scope of this audit is confined to Centrelink's management of this benchmark debt.

2.3 While almost \$1 billion represents a large value of debt in absolute terms, it only reflects a relatively small proportion of total outlays disbursed by Centrelink. For example, outstanding customer debt represented around two per cent of total payments in 2002–03, and approximately one third of one per cent of relevant Centrelink payments of around \$260 billion distributed between its inception on 1 July 1997 and 30 June 2003.

2.4 The ANAO recognises that, in addition to the approximately \$1 billion in benchmark debt outstanding at 30 June 2003, there were many overpayments that had occurred but had not been identified by that date.

2.5 FaCS undertakes a rolling program of Random Sample Surveys (RSSs) of social security payments made by Centrelink.²¹ The RSSs, among other things, identify debts that have not otherwise been detected by Centrelink's controls, as at the date at which the survey is conducted.

2.6 During the course of the audit, using the results of recent RSSs, FaCS calculated that the value of additional potential benchmark debt (that is, debts which have occurred but have yet to be identified) might be in a range between \$307 million and \$820 million. The lower figure is derived if the value is extrapolated from the median value of debts detected by the RSSs. The higher figure relates to the extrapolation of the mean value of these debts. The analysis also suggested there were potentially an additional 600 000 debts yet to be identified.²²

2.7 In consultations with the ANAO, officers from FaCS indicated that the existing Centrelink control framework would, over time, identify a large proportion of the undetected debts indicated by the RSSs. The RSS results for payment variations (rate increases, decreases and cancellations) and debts are a point in time, or snap-shot, estimate of inaccurate payments. Centrelink's control framework picks up over and under payments and debts as compliance or profiling reviews are completed, or customers' records are reviewed as a result of other processes. Therefore, a proportion of the undetected debts extracted by the RSS would flow into Centrelink's 'benchmark' debt.

2.8 The ANAO recognises that there might well be a level of debt that would be considered 'acceptable' by the Government, reflecting Australian community views on the costs and other impacts. Understanding what this level might be, could inform decision-making about balancing the resource

²¹ RSSs involve FaCS, through Centrelink, sampling a number of customers to verify their entitlements. While focussing on correctness of payments, RSS activities include the detection of instances where Centrelink is currently overpaying customers. See Appendix 1 for a more detailed explanation.

²² It is difficult to estimate how many additional debtors this represents, as many customers in the RSS population have multiple debts. Some of the debtors identified by the RSSs would already have debts raised by Centrelink.

costs associated with preventing and identifying debt with the potential savings to outlays of minimising such debts. It would also inform consideration of the impact on customers of aggressive, versus more passive, compliance systems and recovery approaches.

2.9 FaCS advised the ANAO in July 2004 that it is responsible for monitoring the level of debt to ensure that no major breakdown in controls are evident, that payments are materially correct, and to monitor the effect on customers. However, FaCS does not believe it is responsible for determining the acceptable level of debt. FaCS advised that it is continuing to: monitor the level of overpayment and debt; conduct research; actively pursue appropriate strategies with Centrelink to minimise overpayments; and reduce the level of customer debt over time.

Raising and recovering Centrelink debts

2.10 In the period since its inception on 1 July 1997 up to 30 June 2003, Centrelink raised nearly \$5 billion in benchmark debt and recovered nearly \$4 billion. In broad terms, for every \$100 paid in benefits to customers, around \$1.90 was identified as a benchmark debt, and \$1.50 of that debt recovered.

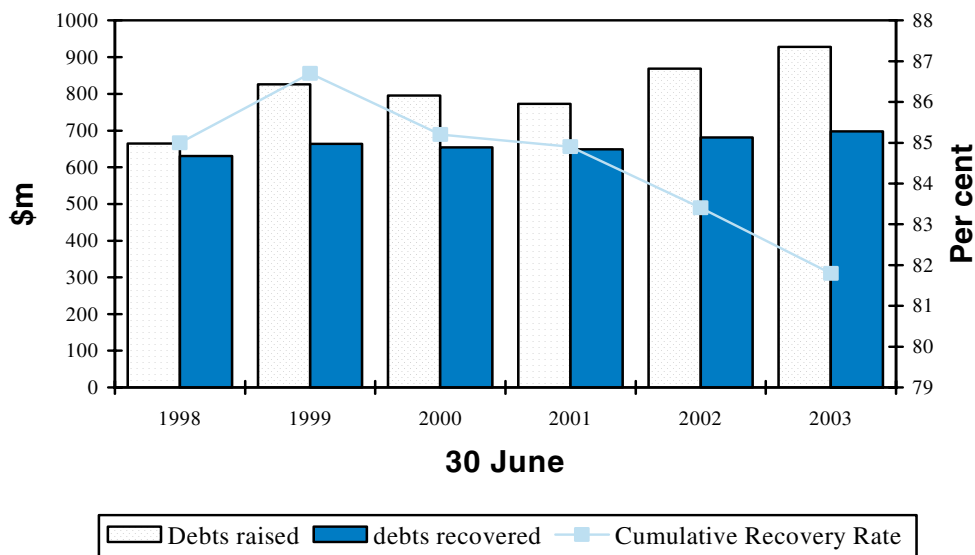
2.11 The value of debts raised rose quite strongly in recent years, reflecting a slight improvement in the effectiveness of debt raising in Centrelink. At the same time, the value of debt recoveries increased only slightly, which led to a reduction in the cumulative recovery rate, from 95 per cent in 1998 to 82 per cent in 2003 (see Figure 2.2).

2.12 As discussed in Chapter 7, this reduction in the debt recovery rate does not accurately reflect Centrelink's performance (which is strongly influenced by policy that limits repayment rates), and does not account for the impact of subsequent reviews that reduce the value of debts (debt discounting).²³

²³ Customers can seek reviews of debts, which often find that the initial estimate of debt was too high, and therefore should be reduced.

Figure 2.2

Centrelink customer debts^a raised and recovered, 1998 to 2003



Note: (a) FaCS payment debts excluding Family Assistance Office reconciliation debts.

Source: Data provided by Centrelink, 2003.

Characteristics of Centrelink debt

2.13 Understanding the major characteristics of customer debt facilitates a robust risk-based approach to debt prevention and identification activities. Important characteristics of benchmark debt include:

- the incidence of debt is strongly related to the type of payment customers are receiving. That is, some programs have a much higher likelihood of debts and debtors than other programs;
- debts for customers in ‘non-stimulus’ programs are typically much larger than debts of customers in ‘stimulus’ payments;²⁴
- a large number of small debts with a relatively small financial value and, conversely, a small number of large debts that represent a significant proportion of the value of total debt;
- while the majority of the total number of outstanding debts is less than a year old, a substantial proportion and value of debt is relatively aged.

²⁴ ‘Non-stimulus’ program payments are made each fortnight without the need for customers to provide information (especially to complete an eligibility form). Conversely, ‘stimulus’ programs require customers to provide information each fortnight in order to receive payments.

For example, 37 per cent of the value of outstanding debt, at 30 June 2003, was over 2 years old, representing around \$350 million; and

- nearly 75 per cent of all debts are under some type of recovery arrangement.

2.14 The substantial disparity in the incidence of debt by program highlights the need for Centrelink and FaCS to work co-operatively to minimise the impact of program design on customer debt levels. Further, the large average size of customer debts in 'non-stimulus' programs highlights the danger, both to the integrity of Commonwealth outlays and Centrelink customers, of Centrelink using compliance systems that require infrequent reporting.

2.15 The ANAO notes that Centrelink has recognised the importance of this issue and has recently placed emphasis on identifying debts as early as possible, both so that they are easier to recover and also to place lesser hardships on customers (see Chapter 5).

2.16 Centrelink has also recently flagged an intention to increase the focus on recovering large debts, through a major reorganisation of its recovery operations. As discussed in Chapter 7, the ANAO supports this approach but is not yet able to assess its effectiveness, as the reorganisation and associated reforms had not been implemented at the time of audit fieldwork.

2.17 Chapter 3 notes that the key performance indicator for Centrelink's performance in recovering debts, to be implemented on 1 July 2004, will encourage Centrelink to focus on maximising the proportion of debts under recovery (see Figure 3.2).

Business management of customer debt in Centrelink

2.18 This section examines the broad framework for business management of customer debt within Centrelink. It assesses the extent to which this business framework supports high performance in debt management, compliance with legislation and policies, and good customer service.

2.19 The way that Centrelink manages customer debt depends largely on:

- Social Security Law and the Social Security Guide;
- directions from FaCS—including the requirements of the *FaCS–Centrelink Business Partnership Agreement 2001–2004 (BPA)*²⁵ relating to debt, other FaCS performance monitoring arrangements, specific debt policies of FaCS, and on-going interactions between Centrelink and FaCS;

²⁵ This document provides the basis for the relationship, which is a unique arrangement characterised by purchaser/provider responsibilities as well as partnership, including alliance arrangements.

- Centrelink’s own policies, strategies and guidelines—both debt-specific and other associated activities, especially the accuracy and correctness of customer payments; and
- Centrelink’s administrative structures, including:
 - national-level organisation of specific debt functions, customer processing units, and other relevant central units;
 - the structure of debt activities in Centrelink’s network (including Area Support Offices, Customer Service Centres, and Call Centres); and
 - mechanisms governing the relationship between the network and the National Support Office for debt management operations.

2.20 These three factors are interrelated. For example, FaCS directions and policies influence Centrelink policies, and the implementation of these and other policies determine, and are influenced by, Centrelink organisational structures.

Centrelink’s relationship with FaCS regarding debt management

2.21 At the time of audit fieldwork, Centrelink’s relationship with FaCS was defined in the BPA. The BPA states ‘Centrelink will have in place a comprehensive framework for maximising correct payments and outlays. This framework will encompass three key strategies ... prevention, detection and deterrence’.²⁶ As part of the BPA, FaCS monitors Centrelink’s debt management performance, through negotiated key performance indicators.

2.22 The BPA also states that FaCS is required to ‘provide Centrelink with appropriate policy advice, guidance and support to enable effective service delivery’.²⁷ FaCS provides guidance to Centrelink through debt legislation²⁸ and the Social Security Guide. In 2000, FaCS developed, in consultation with Centrelink, a Five Year Strategic Framework for Compliance. The Framework defines strategies to reduce incorrect payment and debt through the three main activities of prevention, detection, and recovery and deterrence.

2.23 FaCS and Centrelink share debt management activities and responsibilities, as outlined in Figure A2.1 in Appendix 2. This involves FaCS being largely responsible for many of the identification (compliance) programs on an on-going basis, and for prevention and deterrence programs on a more

²⁶ *FaCS-Centrelink Business Partnership Agreement 2001–2004*, Section 5.3 Correctness of Payments.

²⁷ *Ibid.*

²⁸ Especially *Social Security Act 1991* and the *Social Security (Administration) Act 1999*.

occasional basis—often in the context of major social welfare programs (such as *Australians Working Together*).

2.24 Debt management responsibilities have been shared between the two agencies in a way that provides the opportunity to effectively implement all elements of debt management, according to the Government's policy. The agreement between the two agencies clearly places responsibility for the service delivery elements (raising and recovery) with Centrelink, while still allowing FaCS and Centrelink to work jointly on the more subjective elements of debt prevention and identification.

2.25 However, the ANAO noted a number of shortcomings in the FaCS–Centrelink relationship. In particular, there is scope for FaCS and Centrelink to communicate more effectively on a number of the matters where they have joint activities, especially in determining and implementing debt prevention and identification programs (see Chapters 4 and 5).

Alliance 2004

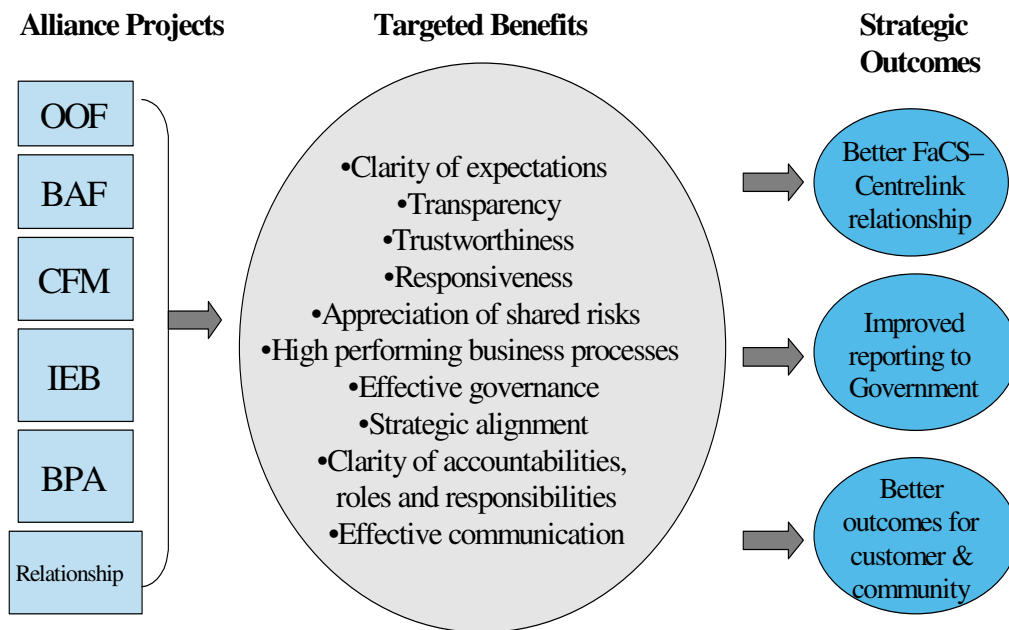
2.26 FaCS and Centrelink subsumed the BPA into a broader relationship, Alliance 2004, in July 2004. As Figure 2.3 outlines, the Alliance 2004 project aims to better align five major projects: Centrelink Funding Model; Outcomes and Outputs Framework; Business Partnership Agreement; Business Assurance Framework; and Information and Evidence Base.

2.27 Alliance 2004 will potentially impact on all elements of debt management. It aims to better clarify roles and responsibilities between FaCS and Centrelink. Importantly, it also involves revision of the debt related key performance indicators agreed by FaCS and Centrelink (see paragraphs 3.15 to 3.22).

2.28 The ANAO is unable to assess the extent to which Alliance 2004 will improve debt management in Centrelink, as the project had not been implemented at the time of research for the audit. However, the ANAO supports the objectives of the program.

Figure 2.3

Alliance 2004: proposed outcomes



Notes: OOF—Outcomes and Outputs Framework; BAF—Business Assurance Framework; CFM—Centrelink Funding Model; IEB—Information and Evidence Base; BPA—Business Partnership Agreement.

Source: Chart provided by Centrelink, 2003.

Centrelink’s main strategies and policies affecting debt management

Overview of strategies and policies affecting debt management in Centrelink

2.29 Figure A2.2 in Appendix 2 outlines Centrelink’s key strategies, policies, and processes for managing debt. It is not comprehensive, but covers the main initiatives, and illustrates the range of activities used by Centrelink to manage debt. However, it is clear that:

- Centrelink has an extensive suite of initiatives to manage debt;
- these initiatives include major strategies, and associated policies and plans, that cover processing of customer payments and specifically target elements of debt; and
- recent debt management initiatives have improved, or are likely to improve, all debt management phases, for example:
 - prevention—implementation of Service Profiling, commencement of debt base analysis, a review of the role of Debt Prevention and

Monitoring Officers,²⁹ and the implementation of debt prevention project management arrangements;

- identification—introduction of a more risk-based compliance program, and an increase in the number, frequency and coverage of data matching programs;
- raising—moving responsibility for debt raising away from a broad range of Customer Service Officers (CSOs) to specialist debt raisers with sole responsibility for raising debts;³⁰ and
- recovery—the proposed major rationalisation and re-organisation of recovery operations.

2.30 These specific initiatives are analysed in more detail in the relevant chapters of this report. However, this chapter briefly discusses the overarching initiatives, especially *Getting it Right* and the *Debt Servicing Strategy*.

Getting it Right

2.31 Centrelink addresses processing ‘correctness’ in many ways, but *Getting it Right* is the major recent initiative aimed at improving payment and decision accuracy and eliminating any preventable re-work. Through the *Getting it Right* strategy, Centrelink aims to ensure it pays the right person, under the right program, at the right rate, for the right date, every time it makes a payment. This strategy is called the ‘four pillars’.

2.32 Centrelink’s Board endorsed the *Getting It Right Strategy* in April 2000. Implementation commenced with the promulgation of the Minimum Standards in November 2000.

Debt Servicing Strategy

2.33 Centrelink also released a *Debt Servicing Strategy 2001–2004* in 2001. This forms an essential part of Centrelink’s efforts to ensure customer payments are accurate and correct. It states:

Debt Servicing is an integral part of our core business. Minimising and servicing customer debts quickly, accurately and in a manner which is sensitive to the customer’s circumstances is central to achieving Centrelink’s client department, customer service and efficiency goals.

²⁹ Chapter 4 discusses Debt Prevention and Monitoring Officers in detail.

³⁰ Other than debts raised by compliance officers, as explained in Chapter 6.

2.34 Centrelink's *Debt Servicing Strategy 2001–2004* is focused on achieving the following outcomes:

- minimise customer debt in a way that is built into standard program delivery;
- identify, calculate and raise debts, according to legislative requirements, accurately and in a timely way;
- recover debts, according to legislative and policy requirements, as quickly as possible, having regard to the Government's equity and social objectives;
- maximise efficiency and effectiveness in the process; and
- provide high quality, consistent, customer service.

2.35 The strategy aims to achieve these goals through building upon the Centrelink *Strategic Framework and Business Plan 2001–2004*, and implementing lessons learnt from past experience. Initiatives include:

- understanding the reasons for debt as the next step beyond customer profiling in working out intervention initiatives;
- developing additional performance measures as a further layer to the Balanced Scorecard to enhance internal management capability;³¹
- undertaking a range of debt prevention initiatives; and
- clearly defining the roles and responsibilities for debt prevention and monitoring at the Area³² and national level.

2.36 At the time the *Debt Servicing Strategy 2001–2004* was launched in December 2001, there were few debt prevention policies and processes, and the accuracy and timeliness of debt raising was poor in some parts of the Centrelink network. An internal audit report into debt management completed in August 2002 made it clear that overpayments and debts were not adequately managed in Centrelink prior to the implementation of the strategy. For example, the audit report stated:

The findings of this audit support the need for a coordinated and adequately resourced effort with appropriate commitment from all senior executives across

³¹ Centrelink's Balanced Scorecard is its key instrument for measuring and reporting its performance, is the primary tool for communicating and understanding performance, and provides the information necessary to focus future performance improvement efforts.

³² Area refers to a Centrelink Area Support Office.

Centrelink, aimed at preventing debt; eliminating processing backlogs and processing errors; and the active recovery of outstanding debt.³³

2.37 The ANAO considers that Centrelink's *Debt Servicing Strategy 2001–2004* has raised the profile and importance of debt management in Centrelink and provided valuable guidance to debt management initiatives. Many elements of the *Debt Servicing Strategy 2001–2004* either have been implemented by Centrelink, or are in the process of being implemented. However, the ANAO also notes that there is further scope to improve the *Debt Servicing Strategy 2001–2004*.

2.38 In particular, the ANAO considers that the *Debt Servicing Strategy 2001–2004* should more strongly influence, and provide better guidance, to enable the integration of Centrelink's debt management processes. However, as the current strategy is in its final year, and Centrelink is diverging from the strategy where sensible, there seems little point in revising the current document.

2.39 Rather, the ANAO considers it important that a subsequent *Debt Servicing Strategy*, or similar document, addresses debt management in Centrelink in a more holistic manner, especially to improve the co-ordination between teams within the agency with responsibility for debt prevention, identification and profiling.

Recommendation No.1

2.40 The ANAO *recommends* that, in developing a replacement for Centrelink's current *Debt Servicing Strategy*, the agency:

- continues to improve communication flows between teams within Centrelink responsible for debt prevention, identification and recovery; and
- aligns debt risks to compliance and service delivery risks, enabling greater efficiencies in debt management activities.

Centrelink response

2.41 Centrelink **agrees** with this recommendation. The Debt Services Team will work collaboratively with other Centrelink teams to develop a new Debt Management Strategy. This strategy will seek to integrate all elements of debt management. The strategy will build on the significant progress already made on improving communications across the various teams within the agency responsible for debt. The strategy will seek to maximise the potential of the new structural arrangements being put in place in the network and will be

³³ Centrelink, 2002, *Debt Management*, Audit Report, August, p. 5.

integrated with the compliance framework. In particular, lessons learnt from compliance and prevention projects/activities will be incorporated into program management arrangements.

Organisational structure for debt management in Centrelink

2.42 As mentioned in Chapter 1, debt responsibilities are widely dispersed throughout Centrelink. This applies to both the specific debt components and those activities where debt management is a subsidiary consideration. In particular:

- responsibility for the main elements of debt management is split between three 'teams' within Centrelink;
 - Debt Services Team—has overall responsibility for debt management, with a focus on prevention and debt raising;
 - Detection and Review Team—manages the compliance programs that identify debts; and
 - Service Integration Shop—manages the processes for debt recovery, Service Profiling, and compliance reviews.³⁴
- Centrelink segment teams (for example, Disability Services) have considerable responsibility for improving debt prevention;
- the Area network is responsible for operationalising debt management by actually preventing, identifying, raising and recovering debt; and
- virtually every team within Centrelink has some responsibility for debt management.

Debt organisational structures at the national level

2.43 In February 2003, the Debt Services Team was split into two separate teams, a segment team and a team located in the Service Integration Shop. However, compliance responsibilities have been separate from the Debt Services Team (or its equivalent) since mid-1999.

2.44 The Debt Services Team was established as a segment team in February 2003. Its role is to, inter alia, maintain liaison with the client department on policy issues and provide the overarching strategic framework for debt management in Centrelink. At that time, an element of the original team was moved to the Service Integration Shop. This was done to establish a debt management element in the Service Integration Shop and to integrate debt

³⁴ Responsibility for implementing compliance reviews moved from the Detection and Review Team to the Profiling and Review Cluster, in the Service Integration Shop, on 1 May 2004. However, the Detection and Review Team retained responsibility for the compliance program.

management into the Service Integration Shop. One role of the Service Integration Shop is to establish the operational framework, processes and Information and Technology network support for the ongoing management of debt across the network.

2.45 Ultimately, the integration of the main elements of debt management in Centrelink depends as much on communication processes between the main players, and the quality of that communication, as it does on the precise organisational structures.

2.46 To this extent, the audit identified potential opportunities to improve the communication flows between the major teams based in the National Support Office responsible for the major elements of debt, especially in relation to:

- recovery and prevention activities, so that information obtained by the recovery team (in the Service Integration Shop) can be used more extensively to inform the prevention program (managed by the Debt Services Team);
- prevention and compliance activities, so that information obtained by the Debt Services Team can be used more extensively to inform the compliance program (managed by the Detection and Review Team), and vice versa; and
- compliance and recovery activities, so that information obtained by the recovery team (in the Service Integration Shop) can be used more extensively to inform the compliance program (managed by the Detection and Review Team).

2.47 The ANAO notes that, in early 2004, Centrelink established a working group to address the overlap between compliance reviews and service updates that are undertaken as part of the Service Profiling program. This provides a good example of the type of communication process that can better integrate debt management in Centrelink. The ANAO also understands that, in November 2003, Centrelink established a steering committee to better integrate the administration of debt management in Centrelink.³⁵

2.48 The ANAO supports these initiatives and encourages Centrelink to use them effectively, to improve the flow of information between each of the teams responsible for major elements of debt management.

³⁵ The committee consists of staff from the three Centrelink teams responsible for debts—that is, Debt Services Team, Detection and Review Team and Debts and Compensation Team. The committee will address debt issues arising from compliance exercises and establish protocols for providing adequate information to customers affected by these initiatives, both in the debt raising and recovery processes.

Relationship between national and network levels for debt operations

2.49 As outlined in Chapter 1, Centrelink is a large organisation, with an extensive network. This network is managed by the National Support Office (NSO) and 15 Area Support Offices (ASOs), which support the 312 Customer Service Centres (CSCs), 27 Call Centres and many other delivery agents.

2.50 As reported in paragraph 2.42, debt management is operationalised at the Area level. Figure A2.3 in Appendix 2 indicates how this is done, and how responsibilities are shared between NSO, ASOs, CSCs and Call Centres.

2.51 In brief, Area Managers have day-to-day responsibility for the delivery of services and the achievement of Centrelink's delivery objectives and benchmarks. The role of NSO is to provide guidance and direction to the Area management through the development of key performance indicators and national strategies, underpinned with relevant management information and decision support materials, and the establishment of structures to help Area management achieve required levels of performance. Centrelink's view is that this approach eliminates the need for NSO to mandate activity or micro-manage resource inputs at the local level.

2.52 At the local level, Centrelink emphasises³⁶ that all CSOs have a duty of care to inform customers of their notification obligations and pay customers their correct entitlement. In addition, Debt Prevention and Monitoring Officers, located in ASOs or CSCs, undertake targeted debt prevention activities. Debts are typically identified at the CSO level, in customer contact areas in CSCs or Call Centres, or in specific Compliance Teams (such as data matching).

2.53 Recently, Centrelink has centralised raising of debts. Specialist debt raising officers, rather than any of Centrelink's CSOs, now raise these debts. However, debts also arise through compliance and program reviews, in which case the review officer will raise the debt. The bulk of debt recovery activity is automated, with any manual work mainly performed by Area Recovery Teams.

2.54 Area Managers report to the Deputy Chief Executive Officer, Service Management, in the NSO. Together with National Managers and other program and business support activity executive level staff, they form the Guiding Coalition,³⁷ and are accountable to the Chief Executive Officer and the Board of Management. This governance structure underpins the accountability regime for debt management in Centrelink.

³⁶ Centrelink, *Debt Training Manual*, February 2003.

³⁷ The Guiding Coalition is Centrelink's internal corporate board, comprising all of Centrelink's Senior Executive Service officers.

2.55 Centrelink follows a 'matrix' management model, and generally allows Area Managers substantial flexibility to manage their Areas, rather than applying 'command and control' from the NSO. However, Centrelink has recently taken a more prescriptive approach to debt management than most other activities.

2.56 The ANAO understands that the greater level of guidance in elements of debt management in the last two years has stemmed from recognition of substantial differences in processes and performance throughout the network, and, most importantly, examples of unacceptably poor performance (as in the timeliness and accuracy of debt raising). These are discussed in Chapters 6 and 7.³⁸

2.57 In August 2003, Centrelink's Performance Management Meeting³⁹ decided to mandate the implementation of identified better practice in debt management. This, together with recent enhanced NSO guidance to the network on debt management activities, has improved the agency's debt raising practices, provided promising proposals to recover debts more cost-effectively and has led to better co-ordination of debt prevention activities.

2.58 The ANAO considers there would also be benefit in Centrelink involving Areas, CSCs and Call Centres in efforts to improve the flow of information between each of the teams responsible for major elements of debt management, as discussed in paragraph 2.48.

2.59 In July 2004, Centrelink advised that Area positions established as part of the Keeping it Fair initiative,⁴⁰ will increase debt management, analysis and reporting capabilities that will improve customer voluntary compliance. These staff will gather and share information from each of the teams, at the Area level, responsible for the major elements of debt management. They will also be responsible for documenting and analysing this information for report back to the corresponding teams at NSO and feeding information into program debt management strategies.

Conclusion

2.60 Since Centrelink's inception in 1997, its clients on average have incurred \$1.90 in debts identified and raised for every \$100 in benchmark payments, repaying \$1.50 of that debt. At 30 June 2003, Centrelink had in the order of \$1 billion in raised benchmark customer debt. This is a large value in

³⁸ See Chapter 6, including references to Centrelink 2002, *Debt Raising Project Phase Two, Evaluation Report Part 1*, p. 6.

³⁹ A meeting of Centrelink's executive, responsible for improving performance.

⁴⁰ Announced in the 2004–05 Commonwealth Budget.

absolute terms, but represents only a small portion of outlays of FaCS payments. To interpret the appropriateness of this level of outstanding customer debt, the ANAO would require further information—from FaCS about its view on the appropriateness of this magnitude of debt, and from Centrelink about the cost of managing the debt.

2.61 Using the results of recent RSSs, FaCS calculated the value of additional potential benchmark debt (that is, debts which have occurred but have yet to be identified) to be between \$307 million and \$820 million. The lower figure is derived by extrapolating the median value of debts detected by the RSSs, while the higher figure relates to the extrapolation of the mean value of these debts.

2.62 Centrelink and FaCS have a framework that provides the opportunity to effectively implement all elements of debt management. However, communication between the two organisations could be improved, especially regarding debt prevention and identification issues.

2.63 Centrelink has many strategies, policies and processes that either directly or indirectly affect debt management. Many debt management initiatives undertaken in the past one to two years have improved debt management performance, or promise to do so in the future. Some of these have arisen from the *Debt Servicing Strategy* or *Getting it Right*, others are part of *Australians Working Together*, and there have also been many other separate initiatives.

2.64 Centrelink has recently moved to a more centralised approach aimed at improving debt management throughout its network. The ANAO encourages Centrelink to involve the network in efforts to improve the interaction between teams involved in debt prevention, identification and recovery activities.

3. Performance Monitoring of Debt Management in Centrelink

This chapter discusses the framework for monitoring the performance of debt management in Centrelink.

Introduction

3.1 This chapter reviews the main aspects of the regime for monitoring the performance of debt management in Centrelink, namely:

- external performance monitoring;
- internal performance measures;
- customer satisfaction with debt management;
- complaints and compliments involving debts; and
- cost and productivity of managing debts.

3.2 This chapter discusses the adequacy of performance measures, not the actual level of performance reported against them. Discussion of measures of the specific elements of debt management is provided in the relevant chapters of this report.

External performance monitoring of debt management in Centrelink

3.3 Under the *Financial Management and Accountability Act 1997*, FaCS is responsible for reporting on the effectiveness and efficiency of the delivery of programs under its authority, including the performance of associated activities, such as managing customer debts.

3.4 Performance information reporting is required under both legislation and mandatory guidelines. FaCS reports the performance of its programs to the Parliament through its Annual Report, against the Outcome and Output indicators contained in its Portfolio Budget Statements (PBS) and in its Portfolio Additional Estimate Statements. The requirements for this reporting are set out in the:

- Department of Finance and Administration's, *Outcome and Outputs Framework Guidance Document*, November 2000; and
- Department of the Prime Minister and Cabinet's *Requirements for Annual Reports*, 2003.

3.5 Centrelink is a major provider of services on behalf of FaCS. It reports its performance to the Parliament through its own Annual Report, and against plans detailed in its PBS. Moreover, Centrelink must also meet the performance standards set in its BPA with FaCS, which acknowledges joint responsibility for performance.

3.6 Accordingly, the ANAO examined performance measures and performance reporting relating to managing customer debts at two levels:

- performance information used to inform the Parliament how well debt management has contributed to the achievement of FaCS' and Centrelink's Outcomes and Outputs; and
- performance information used to inform FaCS of how well Centrelink manages debt.

3.7 The ANAO analysed the quality of performance information in the 2003–04 FaCS PBS, the FaCS and Centrelink Annual Reports for 2002–03, and the quality of the performance information relating to debt management required under the BPA.

3.8 The ANAO assessed debt management performance information against the mandatory guidelines mentioned above, as well as better practice guidance, specifically the ANAO's *Better Practice Guide for Performance Information in Portfolio Budget Statements*, May 2002 and *Better Practice in Annual Performance Reporting*, April 2004.

Reporting to the Parliament: Outcomes and Outputs framework

3.9 Outcome statements should define the impact government expects from the work the agency undertakes and the administered items it manages. FaCS has specified three outcomes—families are strong; communities are strong; and individuals reach their potential. There are no outcomes relating to customer debt and, therefore, no outcome performance measures relating to Centrelink customer debts. The ANAO considers this to be a sensible approach, consistent with the Department of Finance and Administration's guidelines on Outcome Statements.

3.10 The Department of Finance and Administration defines outputs as 'the actual deliverables—goods and services agencies produce to generate the desired outcomes specified by the government'.⁴¹ These outputs are typically split between administered (program) outcomes and departmental outcomes (such as price, quality and quantity).

⁴¹ Department of Finance and Administration, *The Outcomes and Outputs Framework Guidance Document*, November 2000.

3.11 FaCS includes some debt performance measures, by program type, as part of the service delivery component of departmental outputs. As outlined in Figure 3.1, the ANAO considers the coverage of debt management in FaCS' PBS and latest Annual Report complies with current guidelines.

Figure 3.1

Main external monitoring of debt management in Centrelink

Measure	Explanation/target	ANAO Comment
Outcomes / Outputs measures in Portfolio Budget Statements and related reporting in Annual Reports		
<i>FaCS</i>		
Control of incorrect payment and fraud	Savings in outlays arising from compliance activities. Targets for recurrent savings and raising debts.	Provides a focus on debt identification.
Service providers deliver services to the standard agreed with FaCS	Target is 100 per cent—that is, Centrelink must meet all KPIs in the BPA.	Indirectly covers the debt raising and recovery KPIs. These KPIs are being revised.
Percentage of reviews and appeals where original decision is changed	Target to minimise the overturn rate. For example, 37 per cent for Authorised Review Officers for youth and student payments.	Indirectly covers debt related reviews and appeals. Places some pressure to get decisions right the first time.
Measures contained in FaCS Annual Report 2002–03	Reported relevant PBS targets, progress against savings targets, percentage of reviews overturned, and results of KPI measures.	Adequate, but needs to specify debt recovery target.
<i>Centrelink</i>		
Extent to which Centrelink achieved agency KPIs	Target is 100 per cent— that is, Centrelink must meet all KPIs in the BPA.	Indirectly covers the debt raising and recovery KPIs. These KPIs are being revised.
Measures in Centrelink annual report	Reports performance against KPIs and other debt issues.	Good coverage of debt performance and initiatives.
KPIs in the BPA		
Timeliness of raising debt	80 per cent of debts determined within 56 days of initial recording.	Not a demanding target and so does not drive good performance. Being revised.
Debt recovery	Value of recovery at least 80 per cent of value of raising per year. However, this KPI was removed from the BPA in 2002, awaiting further development.	Technical problems, especially not taking into account reductions in debt values. Also being revised.

Source: Data provided by Centrelink, 2003, and ANAO analysis.

3.12 In particular, FaCS' PBS directly or indirectly reports performance on elements of debt identification, raising and recovery. However, as discussed in paragraphs 3.15 to 3.22, debt measures in the FaCS PBS could be improved if linked to better key performance indicators (KPIs) in the BPA with Centrelink.

3.13 The *FaCS Annual Report 2002–03* reports performance against debt performance measures in the PBS, and provides a summary section on debt that also discusses performance against the KPIs set out in the BPA. However, as discussed below, these KPIs are unsatisfactory and need to be replaced.

3.14 Centrelink is also included in the FaCS PBS. Centrelink has specified one outcome and one output—the **effective** and **efficient** delivery of Commonwealth services to eligible customers, respectively. It reports against its Balanced Scorecard to provide performance information against its outcome. Of most relevance to debt management is the measure of the extent to which Centrelink achieved client agency KPIs, including the debt KPIs contained in the FaCS BPA. Centrelink's 2002–03 Annual Report published results against these KPIs (and their targets), together with other data and measures in an informative section that discussed debt issues

Debt KPIs under the BPA and proposed revisions for Alliance 2004

3.15 The current BPA initially stipulated two KPIs related to debt management—one relating to debt raising and another to debt recovery. However, the recovery KPI was dropped from the BPA in 2002, 'to be developed based on level of recovery required to meet FaCS policy guidelines and management assertions on financial statements.'⁴²

3.16 The ANAO agrees with FaCS that the recovery KPI originally specified in the BPA needs to be replaced. The ANAO also has concerns about the debt raising indicator, considering it to be an inadequate performance measure and driver of performance—as outlined in Figure 3.1. This view is also widely held in Centrelink. The internal audit of debt management completed in August 2002 recommended revising the KPIs. Centrelink's Guiding Coalition meeting in August 2003, recommended revising debt KPIs under Alliance 2004, to better represent current performance.⁴³

3.17 In March 2004, Centrelink and FaCS agreed new KPIs, to be referred to as output measures, for debt management, which were implemented as part of Alliance 2004, commencing 1 July 2004 (see Figure 3.2).

⁴² *FaCS-Centrelink Business Partnership Agreement 2001–2004*, Section 5.3, Correctness of Payment.

⁴³ Centrelink, 2003, *Alliance 2004 and Debt KPI*, Version 1.0.0, 24 November.

Figure 3.2**Revised debt output measures, implemented as part of Alliance 2004 on 1 July 2004**

Measure	Target	Explanation
Raising		
100 x (number of debt activities determined in a period) / (opening period undetermined balance + new undetermined activities within period).	65%	Calculated monthly, expressed as a percentage and presented as the average of the last 12 monthly performance.
Recovery		
100 x (debt value under recovery management in a period) / (opening period debt base value + value of new debts within period).	65%	Calculated monthly, expressed as a percentage and presented as the average of the last 12 monthly performance.

Source: Data provided by Centrelink, February 2004.

3.18 The ANAO has concerns about the comprehensiveness of these indicators, and suggests that these revised output measures should be supplemented in three important respects:

- to monitor debt prevention performance;
- to monitor debt identification performance; and
- the debt raising output measure needs to incorporate a measure of accuracy.

3.19 An observation from interviews with Centrelink representatives as part of audit fieldwork, was that an inadequate performance monitoring regime, via the debt KPIs in the BPA, led to an inadequate emphasis on debt management in the past, with resulting poor performance in many parts of the network. The ANAO emphasises that the exercise to revise debt KPIs is important, as success in constructing KPIs (or output measures) can drive significant performance improvements in debt management, which is an important component of Centrelink's activities. Conversely, a continued ineffective performance monitoring regime risks a reversion to a low emphasis on debt management, with resulting reductions in performance throughout the network.

3.20 Figure 3.3 outlines some suggestions for attributes of a revised set of output measures for debt management in Centrelink that could form part of Alliance 2004. The aim of such output measures would be to encourage the following results:

- maximise the prevention of debt;

- minimise the amount of residual debt (that is, debt that is unlikely to be detected by the control framework);
- raise the debts detected by the control framework quickly and accurately; and
- recover debts as quickly as possible, given the legislative environment and customer circumstances.

Figure 3.3

Options for revised output measures of debt management

Measure	ANAO Comment
Prevention	
Centrelink contribution to preventing debt.	Could focus on the number, value and average duration ^a of 'new' debts. That is, debts that have recently been incurred. This is different to the total number and value of debts, which includes debts recently identified and raised, but which could have been incurred prior to recent prevention activities.
Identification	
Overall target for debt identification through compliance programs.	Similar to approach of current FaCS BPA in relation to compliance savings targets, but would involve an overall dollar target.
Raising	
Timeliness of debts raised and accuracy of debts raised.	Timeliness measure as per debt raising output measure reported in Figure 3.2. FaCS and Centrelink should consider a survey approach to measure the accuracy of debt raising.
Recovery	
Debts under management as a percentage of the debt base.	As per the revised debt recovery output measure reported in Figure 3.2.
Total value of outstanding debt, in dollar terms.	The value of outstanding customer debt should at least be reported in the Annual Reports of FaCS and/or Centrelink, if not in the output measures. It would inform the Parliament of the scale and rate of growth of customer welfare debt.

Note: (a) Average duration refers to the period of time in which the customer was being overpaid, and a debt was being incurred

Source: Data provided by Centrelink, 2003, and ANAO analysis.

3.21 The ANAO recognises that some of the above measures may not be able to be implemented immediately, as adequate data collection mechanisms might need to be developed and put in place. In particular, this may apply to the proposed option for measuring prevention. Similarly, the measure of debt raising may require the establishment of adequate surveys to monitor the accuracy of debt raising.

Recommendation No.2

3.22 The ANAO *recommends* that FaCS, in consultation with Centrelink, review the external performance monitoring regime for debt management in Centrelink to promote better practices and performance improvements. In particular, the ANAO recommends that the review consider the benefits of:

- replacing the current debt key performance indicators in the FaCS–Centrelink Business Partnership Agreement with indicators that measure the effectiveness of the four major phases of debt management (prevention, identification, raising and recovery); and
- revising the Outcome–Output measures in both FaCS and Centrelink Portfolio Budget Statements to encompass these measures, which would then be reported against in the agencies’ respective Annual Reports to the Parliament.

Centrelink Response

3.23 Centrelink **agrees with qualification** to this recommendation. New debt raising and recovery Output Measures have been developed and agreed by FaCS and Centrelink under the Alliance 2004 Outcomes Outputs Framework for implementation from 1 July 2004. The new debt raising output measure will overcome the deficiencies of the previous debt raising KPI. The new debt recovery output measure will better address the changing nature of the customer base and the changes over time to customer preference for repayment options

3.24 FaCS and Centrelink will agree, by 30 September 2004, to a Memorandum of Understanding (MoU) covering all of Centrelink’s debt management activity. The MoU will include a mechanism for developing and reviewing output measures, including those specified in the development of the Outcomes Outputs Framework. Centrelink is currently looking at the feasibility of developing an output measure for debt prevention but has concerns that the development of a broader debt identification output measure that involves an overall dollar target for debt identification, has the potential to deliver perverse outcomes that run counter to the objective to prevent debt.

FaCS response

3.25 FaCS **agrees with qualification** to this recommendation. After reviewing the appropriateness and effectiveness of performance measures in the FaCS Centrelink Business Partnership Agreement, FaCS and Centrelink have agreed new KPIs for debt identification and debt recovery. These have been incorporated in the Outcomes and Outputs Framework and form part of the new 2004-2008 Business Alliance Agreement between FaCS and Centrelink. These KPIs represent a substantial improvement over the KPIs they replaced,

and will focus Centrelink activity on FaCS' objectives that debts are determined promptly and recovered efficiently.

3.26 FaCS and Centrelink are developing a MoU on debt management that will incorporate monitoring and reporting processes to facilitate effective assessment of Centrelink performance against these KPIs, and to inform the development and review of new measures of performance. FaCS will work with Centrelink to examine the feasibility of developing KPIs for debt prevention, identification and raising accuracy. However, FaCS notes that setting balanced KPIs for social security debt is extremely complex and requires robust data in order to be effective.

Internal performance monitoring of debt management in Centrelink

3.27 Centrelink has a number of internal measures that inform reporting against external measures of debt performance. These internal measures are reported in a number of ways, such as quarterly to FaCS, monthly from Areas to the NSO, and weekly from CSCs to Areas. Figure 3.4 reports some of the more common internal performance measures relating to debt management.

3.28 In addition to these internal measures, Centrelink also collects and analyses an extensive range of data for comparative purposes (between units and over time). This performance monitoring is undertaken at a number of levels, including by debt team leaders, as ASO research, and as special projects undertaken at the NSO.

3.29 The ANAO considers that these internal measures are particularly useful for debt recovery and identification, but could be improved for some other elements of debt management, especially prevention.

Figure 3.4

Main internal monitoring of debt management in Centrelink

Measure (target)	Explanation	ANAO Comment
Prevention		
Average duration of debts (days)	The average duration of preventable debt.	Good measure but not really prevention.
Debts raised (number)	The number of preventable debts raised.	Not a prevention measure in isolation.
Debts raised (value)	The value of preventable debts raised.	Not a prevention measure in isolation.
Identification		
\$ raised per dollar of compliance team salary	Cost effectiveness indicator for Area compliance activities. Targets vary depending on compliance program.	Good measure if salaries correctly calculated.
Raising		
80 per cent of debt shells ^a on hand are less than 56 days old	Ensures that the remaining undetermined debts are not too old.	Complements debt raising KPI measure.
Recovery		
\$ recovered per dollar of recovery team salary	Cost effectiveness indicator for Area recovery activities. Target=13:1.	Good measure if recovery team salaries correctly calculated.
\$ recovered per Recovery Officer	Effectiveness indicator for individual offices. Target=\$1800.	Complements above measure.
% under management by Area Recovery Teams (no.)	Measures the number of debts under Area Recovery Team Management that have recovery arrangements. Target=60 per cent.	Focuses on what Centrelink can most influence. Excludes automatically managed debts, such as those being recovered by withholdings.
% under management by Area Recovery Teams (value)	Measures the value of debt under Recovery Team Management that is subject to a recovery arrangement. Target=60 per cent.	Complements measure above, by focussing on the value of arrangements.

Note: (a) A debt shell is created when a potential debt is identified. These shells must then be determined, with the debt being raised, waived or 'finalised no debt', as explained in Chapter 6.

Source: Data provided by Centrelink, 2003.

3.30 Centrelink advised that it was undertaking a project to revise internal debt performance measures, but had not completed the project at the time of audit fieldwork. This timing precluded the ANAO from reviewing this work for inclusion in the audit report.

Measures of customer satisfaction with debt

3.31 The audit aimed to assess the adequacy of debt management in Centrelink, including the quality of service provided to customers.

3.32 Customers can often distinguish between events that resulted in the debt, and the quality of the administration of the debt by a service provider, especially the timeliness and accuracy of debt raising and the nature of the interaction in the debt recovery process. Furthermore, customers can often distinguish between personal and professional elements of the service provided.⁴⁴

3.33 To assess the level of customer satisfaction with debt management, the ANAO reviewed relevant information that was collected by Centrelink (see Figure 3.5).

Figure 3.5

Possible sources of information Centrelink could use to measure customer satisfaction with its debt management

Source of information	Is data currently collected?	Is data currently analysed?	Are performance measures used?	Are performance measures reported?
Complaints and compliments data	Yes	Occasionally	No	Inadequately
Reviews (ARO, SSAT, AAT) ^a	Yes	For SSAT, AAT	Some	Some
Value Creation Workshops ^b	Yes	Yes	Not usefully	Not usefully
Surveys of customer satisfaction	No	No	No	No

Notes: (a) ARO—Authorised Review Officer; SSAT—Social Security Appeals Tribunal; AAT—Administrative Appeals Tribunal.

(b) A Value Creation Workshop is designed to give Centrelink staff and managers an opportunity to understand customer behaviour and attitudes by conducting a facilitated workshop with a sample of Centrelink customers.

Source: Data provided by Centrelink, 2003, and ANAO analysis.

3.34 Centrelink does not include questions about debt servicing in its regular surveys of customer satisfaction.

3.35 Centrelink’s Customer Relations Unit collects data on complaints, compliments and other elements of Centrelink service. It maintains an

⁴⁴ The Child Support Agency provides a good example of monitoring customer satisfaction with debt management services. The Child Support Agency surveys its clients, who report, meaningfully, about personal and professional attributes of Child Support Agency staff in managing customer debts.

interactive database that can be accessed by other Centrelink staff, as required. It also regularly reports trends in these customer contacts.⁴⁵

3.36 It is possible to extract data on trends in customer debt from this database. This includes data about customer contacts regarding debt, such as complaints. However, this has not occurred on a substantial or regular basis. Centrelink was unable to provide the ANAO with any examples of reports that analysed debt issues from this database in any meaningful way, either as a guide to customer satisfaction, or to inform or improve debt practices. Similarly, no debt servicing staff in the network, interviewed as part of fieldwork for this audit, reported knowledge of regular use of the database for these purposes.

3.37 Centrelink also collects and reports data on appeals to Authorised Review Officers, the Social Security Appeals Tribunal and the Administrative Appeals Tribunal. Centrelink reports this data regularly, and has undertaken some useful analysis of appeals about debt decisions. However, this reporting and analysis is not able to provide a useful indication about overall levels of customer satisfaction, as it represents only a small proportion of customers.

3.38 The ANAO considers that debt management is sufficiently important to warrant specific monitoring of customer satisfaction with this aspect of Centrelink's service. Excluding Family Tax Benefit reconciliation debts, around 600 000 Centrelink customers were in debt at 30 June 2003, owing around \$1 billion. Results of such analysis could be used to improve debt management processes.

Recommendation No.3

3.39 The ANAO *recommends* that Centrelink monitor customer satisfaction with the administration of its debt raising and recovery activities, and use those results to improve debt service delivery.

Centrelink response

3.40 Centrelink **agrees** with this recommendation. Noting that only six per cent of Centrelink's customers on main income support pension and benefit types (excluding Family Assistance Office) at the time of the audit had debts, Centrelink will look to the intelligence gathered by Value Creation Workshops, Random Sample Surveys, outcomes of customer appeals and will consider supplementing this information with tailored customer surveys in order to monitor customer satisfaction with the administration of debt raising and recovery activities.

⁴⁵ For example, *1800 Customer Contact Report*, compiled monthly and reported to Centrelink's executive.

Productivity and cost efficiency of debt management in Centrelink

3.41 The ANAO also aimed to assess whether Centrelink's debt management services were provided in both a productive and cost efficient manner. Productivity involves minimising inputs for a given level of outputs. Cost efficiency involves minimising costs for a given level of outputs—generally from a combination of minimising inputs and using low cost inputs.

3.42 The ANAO was not able to assess productivity or cost effectiveness for Centrelink's debt management activities, mainly because:

- Centrelink was not able to quantify many of its debt inputs;
- Centrelink was not able to quantify many of its debt costs; and
- it was difficult to identify other organisations that would be suitable for comparison of productivity or cost effectiveness.

3.43 In 2002, the Boston Consulting Group was engaged by Centrelink to undertake a *Cost Efficiency Review*. This review emphasised the need for Centrelink to improve cost-related performance information across the network,⁴⁶ which reinforced earlier ANAO findings.⁴⁷

3.44 The Centrelink Funding Model is the output-cost based model to be used as the funding formula for Centrelink from 1 July 2004 for FaCS, the Department of Employment and Workplace Relations, and the Department of Education, Science and Training, with oversight from the Department of Finance and Administration. The Centrelink Funding Model is now used as the costing methodology for Centrelink business. Centrelink has generated cost data by identifying and process mapping activities performed by Centrelink's operational staff.

3.45 Centrelink provided the ANAO with output-based costs, from Centrelink Funding Model/Strategic Cost Management data for 2002–03, relating to debts raised. However, it did not provide equivalent data for debt recovery, debt prevention or compliance activities.

3.46 The main information Centrelink has provided on improvements to cost efficiency concerns debt recovery:⁴⁸

⁴⁶ The Boston Consulting Group 2002, *Cost Efficiency Review*, October. The review did not explicitly review the cost efficiency of Centrelink's debt management services.

⁴⁷ ANAO Audit Report No.43 1999–2000, *Planning and Monitoring for Cost Effective Service Delivery—Staffing and Funding Arrangements*, Recommendation No. 3.

⁴⁸ Centrelink, *Debt Recovery Strategic Issues*, September 2003, p. 4.

Together, these initiatives saw Area Review Team staffing reduced from 341.9 Average Staffing Level in June 2001 to 227.4 Average Staffing Level in June 2003 (a 33.5 per cent reduction), while Centrelink recoveries rose from \$217.87 million in 2000–01 to \$374.27 million (excluding withholdings, compensation insurer recoveries and Family Assistance Office Tax Offsets) in 2002–03 (a 71.8 per cent increase).

3.47 Centrelink advised the ANAO that it intends to conduct a Post Implementation Review of its new debt raising arrangements, that will report improvements in productivity and cost efficiency for debt raising.

3.48 The 2001 *Debt Servicing Strategy* stated that Centrelink would investigate best practice in the public and private sectors, Australia and overseas, and by the end of 2004 be benchmarked as best practice in debt services.⁴⁹ Centrelink informed the ANAO that it had made some preliminary attempts at benchmarking, found little comparative information, and, therefore, had not persevered with the exercise.

3.49 The ANAO considers that there are potential benefits from Centrelink persevering with efforts to benchmark the performance of its debt management activities, as there are likely to be valuable lessons to be learned from comparisons, perhaps with private sector firms or overseas welfare agencies. The ANAO also considers that Centrelink's work in implementing Strategic Cost Management should provide data to underpin such benchmarking activities.

Conclusion

3.50 FaCS and Centrelink have agreed with the ANAO's suggestion to improve debt KPIs by supplementing the recently revised set of KPIs with measures of the effectiveness of debt prevention and identification, and the accuracy of debt raising, as well as reporting on the magnitude of outstanding debt. However, any move to reporting against these improved KPIs needs to await the implementation of systems to generate suitably robust data.

3.51 Centrelink does not measure customer satisfaction with its management of debt. However, excluding Family Tax Benefit reconciliation debts, around 600 000 Centrelink customers had debts raised against them as at 30 June 2003, owing around \$1 billion. Given the significance of this debt, the ANAO considers it important that Centrelink monitor customer satisfaction with its debt management services. Similarly, Centrelink needs to more fully measure its debt management resourcing and cost, to ascertain relative productivity and cost efficiency, and achieve future savings.

⁴⁹ Centrelink, *Debt Servicing Strategy 2001–2004*, Table 1.

4. Debt Prevention

This chapter examines Centrelink's efforts to prevent customer debt. It discusses various elements of Centrelink's service delivery systems and their role in preventing and deterring customer debt.

Background

4.1 By its nature, debt prevention is a complex activity, designed to reduce the incidence of debt by preventing it before it occurs. Debt prevention includes both external and internal elements, as it aims to encourage Centrelink customers to fulfil their reporting and other obligations, as well as improve the ability of Centrelink staff to prevent debts.

4.2 Conceptually, debt prevention encompasses efforts to encourage or maintain voluntary compliance among customers (mainly via education and publicity campaigns), as well as deterrence of less compliant customers through activities such as data matching, investigations and prosecutions.

Nature of debt prevention in Centrelink

4.3 Centrelink has identified debt prevention as an important agency activity, stating: 'Centrelink has a strong obligation to help customers avoid incurring debts. The primary aim is to prevent incorrect payments, rather than to detect and correct them later'.⁵⁰

4.4 FaCS considers that prevention is a key component of its framework to ensure integrity of outlays, through systems and procedures to minimise the risk of inaccurate payment and fraud.⁵¹ In line with this expectation, and within the wider environment of its BPA with FaCS, Centrelink undertakes a number of explicit and implicit debt prevention activities, including:

- dissemination of general debt prevention communications and messages to customers;
- specific debt prevention campaigns and projects conducted by Areas and Debt Prevention and Monitoring Officers;
- compliance activity such as reviews, Service Profiling, data matching, investigations and prosecutions; and
- staff training and processes to minimise the potential for debts.

⁵⁰ Centrelink, *The Debt Training Manual*, op. cit., p. 9.

⁵¹ FaCS, *Five Year Strategic Framework for Compliance*, December 2000.

4.5 This chapter examines Centrelink's debt prevention activities⁵² by analysing the following themes:

- analysis of reasons and causes of debt, including customer behaviour and attitudes;
- Centrelink's operational debt prevention activities; and
- measuring the effectiveness of debt prevention activities.

Common reasons for and causes of debts

4.6 There are many direct reasons why customers incur a debt to Centrelink. According to Centrelink research and data analysis,⁵³ the majority (60 per cent) of customer debt is a consequence of either: under-declared or undeclared earnings; or loss of entitlement due to non notification or late notification of change of circumstances (see Figure 4.1).

Figure 4.1

Reasons for customer debts, 2002–03

	Number of benchmark debts	Value of debts (\$m)	Share of debts (by value) (%)
Income	476 022	411	48
Eligibility	79 778	101	12
Other	833 458	343	40
Total	1 389 258	855	100

Source: Data provided by Centrelink, 2004.

4.7 In general terms, the more compliant customers are in reporting notifiable events to Centrelink within the required notification period, the less likely they are to be overpaid, and incur a debt. However, if customers are unaware of, misunderstand, or avoid (either passively or actively) their reporting obligations, they are more likely to incur a debt.

4.8 The ANAO requested data from Centrelink about the number and share of debts that could be attributed to either customer error or administrative error. Centrelink did not collect these data on a comprehensive and robust basis, so was not able to provide it to the ANAO. The ANAO considers it important that Centrelink collect this information, to better understand reasons for debt and improve debt management processes and performance.

⁵² Excluding Family Tax Benefit reconciliation debts.

⁵³ Centrelink, *Analysis Of Customer Debt in Centrelink, Paper 1*, October 2003.

4.9 The ANAO suggests that Centrelink revises its recording of debt reasons, so that it can collect accurate data that attributes debts to customer error or administrative error.⁵⁴ Furthermore, analysis of this data would improve Centrelink’s debt management practices and performance.

Indirect causes of debts

4.10 There are also a number of indirect causes of debts, including those relating to customer behaviour and attitudes. The *Centrelink Debt Servicing Strategy 2001–04* summarises the main causes of customer debt, within the categories of Centrelink error, customer error, and the consequence of policy requirements (see Figure 4.2).

4.11 As reported in paragraph 4.8, Centrelink does not collect information that allows it to estimate the relative incidence of these three main causes of debt (that is, customer error, Centrelink error or policy⁵⁵), let alone break these data down to the level of detail Figure 4.2 outlines.

Figure 4.2

Main causes of Centrelink customer debt

<p>Customers</p> <ul style="list-style-type: none"> ● Not understanding their obligations; ● not understanding fully the requirements associated with fulfilling their obligations; ● knowing their obligations but not realising the importance of complying—often related to cultural factors; and ● knowing their obligations and wilfully not complying (fraud). <p>Centrelink</p> <ul style="list-style-type: none"> ● Inadequate staff skills; ● workload pressures; ● ease of use of tools; and ● adequacy of system-based controls. <p>Policy</p> <ul style="list-style-type: none"> ● The policy, particularly for income and student activity declaration, is complex and can be difficult to comply with even with knowledge of obligations and the best intentions.

Source: Centrelink, *Debt Servicing Strategy 2001–04*, pp. 11–12.

⁵⁴ In July 2004, Centrelink advised that it is developing a script that will be used to transfer undetermined debts to the debt raising team. The script will include a field for recording the reason for debt: customer error; staff error; system error; or policy.

⁵⁵ Policy related debts include those related to compensation and advance payments.

4.12 As Chapter 2 observes, there is also a strong correlation between the incidence and magnitude of debt, and payment type. For example, non-stimulus programs generally have higher debts per debtor than stimulus payments.

Adequacy of FaCS and Centrelink analysis of reasons for and causes of debts

4.13 Effective debt prevention requires a sophisticated analysis of debt causes and incidence, as well as an in-depth understanding of customer behaviour, attitudes, circumstances, and reasons why the debt occurred. Such analysis enables the formulation of debt prevention strategies to address the greatest debt risks.

4.14 The ANAO found that FaCS and Centrelink had conducted relatively little research into the reasons for, and causes of, debt—given the magnitude of customer debt. However, the ANAO notes that FaCS and Centrelink had undertaken two major pieces of quantitative research⁵⁶, a recent study on Debt Drivers for Youth⁵⁷, and that Random Sample Surveys identify reasons for payment incorrectness.

4.15 The ANAO also notes that a major internal analysis of the Centrelink debt base is currently underway. This debt base analysis is one of the initiatives set out in the *Debt Servicing Strategy 2001–04*, and is attempting to better correlate customer attributes and circumstances with debt frequency, size and causes.

4.16 Similarly, many of the customer behaviour factors that might cause debt have been included in the profile predictors developed for service updates, as part of FaCS' Service Profiling program (see paragraphs 4.72 to 4.74).

4.17 The ANAO is aware that Centrelink has conducted other ad hoc research into causes of debt and customer behaviour, usually undertaken within ASOs. However, due to limited scope and variance in methodology and approach, it is difficult to assess the contribution that this research has made, or can make, to Centrelink's overall understanding of debt causes and debtor customer behaviour. Centrelink has recognised the variation to methodology and approach by ASOs and has consequently developed a methodology for Area-based activities to be developed and progressed to the Performance

⁵⁶ These two reports contributed to the development of Centrelink's *Debt Servicing Strategy*, and were: FaCS 2001, *Factors Influencing Voluntary Compliance*, and Centrelink, 1998, *Non-Disclosure and Overpayment*, prepared by Research Advantage, Research and Marketing Consultants, March.

⁵⁷ Centrelink 2003, *Debt Drivers for Youth*.

Management Meeting. This aims to standardise Area approaches and ensure an adequate evaluation strategy is undertaken.

4.18 Other customer research, such as Value Creation Workshops⁵⁸, have been conducted by Areas on an ad hoc basis to attempt to understand customer perceptions and attitudes about debt and debt servicing. The ANAO notes that, although there is merit in conducting Value Creation Workshops to enhance understanding of customers' experiences, those undertaken to date have generally not had a substantial impact on debt prevention strategies and activities.

4.19 It is, therefore, important that Centrelink and FaCS continue their efforts to base understandings of the causes of customer debt on empirical evidence. Quantitative approaches allow ongoing testing of anecdotal evidence and beliefs about customer behaviour and its influence on debt. Co-ordination of quantitative research efforts will improve research effectiveness and efficiency for both FaCS and Centrelink.

Analysis of the Centrelink Debt Base

4.20 As mentioned in para 4.15, Centrelink has commenced a major analysis of its customer debt base, using historic information contained in the Debt Management Information System, and the Income Security Integrated System, which is Centrelink's payment (or host) computer mainframe system.

4.21 At the time of audit fieldwork, Centrelink advised that this debt base analysis was still in progress, and being conducted in two distinct phases:

- Initial phase (completed)—understand and analyse the debt context by referencing debt data with customer and payment attributes (age, gender, geographic location, type of payment, and seasonal factors, etc.). It involved producing information on debt drivers by program using a risk-based framework; and
- Secondary phase (continuing)—using correlated data to develop a detailed understanding of debt reasons, and any relationship they may have with customer attributes and behaviours for specific Centrelink customer groups, in conjunction with relevant Customer Segment Teams. This phase involves the development of a program-specific prevention strategy for the Disability Support Pension, Age Pension, Youth Allowance, ABSTUDY Allowance, and Indigenous programs.

⁵⁸ A Value Creation Workshop is designed to give Centrelink staff and managers an opportunity to understand customer behaviour and attitudes by conducting a facilitated workshop with a sample of Centrelink customers.

4.22 As discussed in Chapter 2, the ANAO supports this analysis, and encourages Centrelink to use its findings to better target debt prevention activity.

4.23 The ANAO notes that FaCS and Centrelink have recently commenced working collaboratively, to use the results of the debt base analysis to support other risk mitigation initiatives, such as Service Profiling (further discussed in paragraphs 4.72 to 4.74).

A model of customer debt and compliance behaviour

4.24 Apart from the analysis of the debt base, the ANAO found little evidence that Centrelink had attempted to segment or model customer behaviour and attributes to better target debt prevention strategies and projects. For example, to cross reference customer behaviour and attributes with known debt factors (such as size, frequency, geographic, seasonal and demographic factors).

4.25 The ANAO observed that much operational debt prevention work was carried out in an ad hoc fashion, often based on local anecdotal evidence of causes of debt (for example, verification by employers of earnings of casual workers in a rural industry), rather than based on understanding of underlying customer behaviour.

4.26 The ANAO notes that Centrelink is drafting a debt management framework that uses an, 'able, aware, and motivated' approach. The ANAO encourages Centrelink to supplement this effort by drawing from the experience of the Child Support Agency and the Australian Taxation Office, which have conducted similar exercises.

4.27 Both of these agencies have developed a risk and servicing model to focus compliance resources. The Australian Taxation Office has also refined its compliance approach to reflect the variance in compliant behaviour by its customers, by *encouraging* compliance for less 'risky' (that is, more compliant) customers, and *enforcing* compliance for more 'risky' (that is, more non-compliant) customers.⁵⁹

4.28 Figure 4.3 presents a possible model for Centrelink's overall compliance and debt management approach. This model indicates that different customer behaviours, attitudes and debt risk factors can be aligned to various debt prevention activities and resources.

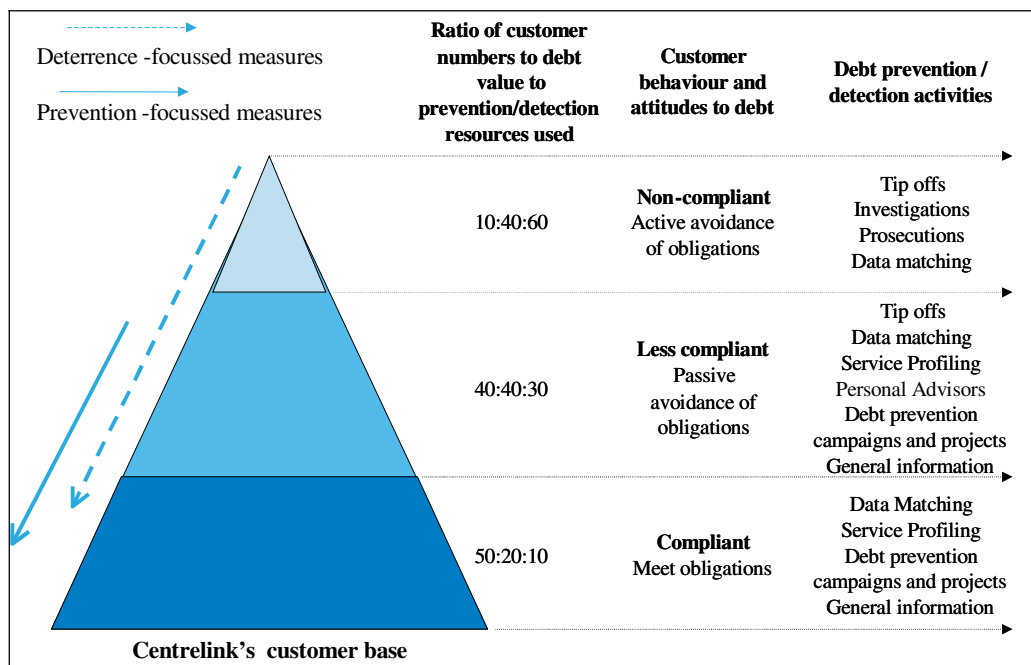
4.29 Due to a lack of available costing data from Centrelink, this model is based on estimated ratios. For this reason, the ANAO suggests that FaCS and Centrelink attempt to define a similar model, based on their shared

⁵⁹ Australian Taxation Office, *The Cash Economy Under The New Tax System*, September 2003.

understanding of debt risk factors, customer behaviour and resource availability.

Figure 4.3

A possible model of Centrelink customer debt and compliance behaviour



Source: ANAO analysis.

Centrelink's operational debt prevention activities

4.30 To evaluate Centrelink's operational debt prevention strategies, the ANAO examined:

- debt prevention targeting and alignment between Centrelink and FaCS;
- debt prevention activities in NSO and ASOs, including Debt Prevention and Monitoring Officer activities;
- debt prevention for customers with special needs; and
- the indirect debt prevention effect of compliance activity.

Targeting and alignment of debt prevention strategy

Debt Servicing Strategy

4.31 Centrelink's *Debt Servicing Strategy 2001–04* defines debt prevention as one of the core elements of debt servicing, with a stated objective to:

identify customers who are most at risk of accumulating a debt and strategically targeting debt prevention measures to address the reasons for these debts. This must be done in a way that lays the building blocks for debt prevention to be an integral element of one-to-one service delivery.⁶⁰

4.32 Centrelink also identified in its *Debt Servicing Strategy 2001–04*, a number of ‘high risk’ customer groups, namely youth, indigenous, diverse cultural and linguistic background, and de facto/separated customers.⁶¹

4.33 As discussed earlier in this chapter, Centrelink is currently re-analysing its debt base in order to better define debt risk factors, and better target debt prevention activity to these risk factors.

4.34 However, the ANAO notes that many of the debt prevention projects currently underway across Centrelink are not obviously aligned from the strategic to operational level.

4.35 The ANAO further notes that the customers, as described in paragraph 4.32, have not been targeted in current debt prevention projects on the basis of analysis of their debt amounts or incidence, but rather on the basis of anecdotal evidence. The ANAO found little evidence of guidance to Centrelink from FaCS about that department’s priority concerns for debt prevention. In July 2004, Centrelink advised that a Memorandum of Understanding between FaCS and Centrelink, to be agreed by September 2004, will focus on the development of effective debt prevention strategies.

National Support Office and Area Support Office responsibilities

Debt Services Customer Segment Team

4.36 The Debt Services Team nationally coordinates Centrelink’s debt servicing activities. One of its roles is to liaise with and advise Customer Segment Teams and Areas on the targeting and design of debt prevention activity.

4.37 The ANAO observed a number of problems in the relationship between the Debt Services Team and Areas, to implement debt prevention strategies, including that:

- the Debt Services Team had, until recently, a guidance rather than approval role for debt prevention work conducted in Areas, and was not able to fully monitor the scale and focus of Area debt prevention projects;

⁶⁰ Centrelink, *Debt Servicing Strategy, 2001–2004*, p. 5.

⁶¹ *ibid.*, p. 9.

- the effectiveness of various Area debt prevention projects or campaigns was difficult for the Debt Services Team to evaluate due to a lack of consistent and timely data; and
- debt prevention resources are no longer specifically earmarked for debt prevention activity at the Area level, resulting in greatly varying emphasis on, and resourcing of, this function between Areas.

4.38 These factors caused significant problems for the Debt Services Team in fulfilling its leadership and coordination roles in debt prevention. That is, for the Debt Service Team to monitor the performance of debt prevention activities in Areas, and to encourage Areas to adopt better debt prevention practices.

4.39 The ANAO therefore encourages Centrelink to review the resources and mandate of the Debt Services Team, to ensure that it can perform an effective leadership and coordination function for debt prevention across the agency.

Debt Prevention and Monitoring Officers

4.40 A major component of Centrelink's debt prevention strategy is the network of Debt Prevention and Monitoring Officers (DPMOs).

4.41 When introduced into Centrelink, the role of the DPMO was to develop debt prevention initiatives that assist CSO's capacity to prevent customer debt and identify and raise debt in a timely and accurate manner.

4.42 DPMOs are an important link between NSO, ASOs and CSCs on debt issues, as they are often recruited from within the network and have local knowledge based on operational exposure. A DPMO Coordinator located in each Area manages the Area's DPMOs. The Coordinator supervises projects and campaigns among DPMOs in the Area, and also acts as a conduit to escalate emerging debt issues to the ASO leadership.

4.43 During fieldwork for this audit, the ANAO observed that there was no national model or consistent role for DPMOs, and some variance in work practices and focus from Area to Area. The ANAO also observed that DPMO projects were developed using many different methodologies and that there was limited liaison and dissemination of better practice amongst DPMOs.

DPMO projects

4.44 In response to some of the issues noted above, the Debt Services Team re-developed its existing DPMO project repository in late-2003 to:

- improve visibility of projects;
- ensure that common debt themes were understood across the network; and

- standardise documentation and methodology for project plans and evaluations.

4.45 However, the ANAO noted that some projects had a number of shortcomings including:

- different approaches and structure;
- a lack of an evaluation strategy to ensure that the project was well targeted and had performed well; and
- a lack of means of attribution to ensure that debt prevention work was recorded in computer systems and measured as a debt prevention input.

4.46 Centrelink has recently taken some steps to deal with these issues, including:

- proposing to change the role and title of DPMOs to better reflect their actual work in the network preventing debt;⁶² and
- endorsing a project to define a baseline proforma for prevention projects, including an approach for an evaluation strategy.

4.47 The ANAO considers that these initiatives have the potential to improve the effectiveness of debt prevention activities in Centrelink. However, the ANAO notes that these initiatives are new, and a risk remains that they may not be fully implemented, perhaps due to competing resource priorities.

Recommendation No.4

4.48 The ANAO *recommends* that Centrelink review the implementation, including funding arrangements, of debt prevention activities across its network, and determine whether this implementation supports effective leadership and coordination of debt prevention and management initiatives by Centrelink's Debt Services Team.

Centrelink response

4.49 Centrelink **agrees** with this recommendation. Centrelink will undertake a review of the administration of debt prevention in the network in the context of exploring, with FaCS, the development of a framework for the management of debt prevention.

⁶² It is proposed to re-name the DPMOs and Coordinators to Debt Prevention Advisor and Debt Prevention Manager, respectively.

Encouragement of voluntary customer compliance

4.50 In 2002–03, FaCS commissioned a multimedia information campaign with the theme ‘Support the System that Supports You’. This campaign was funded as a separate Budget measure and aimed to reinforce compliant customer behaviour, as well as encourage less compliant customers to promptly notify Centrelink of any changes of circumstances. The campaign also involved publicity of fraud reporting channels available to the general public, such as through telephone or Internet.

4.51 FaCS estimated that savings directly attributed to the campaign were approximately \$40 million, although FaCS was not able to provide the ANAO with evidence of the methodology used by the department to produce this estimate.

4.52 FaCS also commissioned a number of cycles of post-campaign testing to monitor the impact and penetration of the messages within the target audience. Overall, this market research showed that customers were aware of the campaign, and understood the messages.

4.53 Although the ANAO is unable to validate the success, or otherwise, of this campaign, it supports FaCS’ strategic objective of educating, and encouraging customers to fulfil their obligations to Centrelink, maintain compliant behaviours, and support the integrity of payment outlays by exposing fraud.

4.54 The ANAO encourages Centrelink and FaCS to capture lessons learnt from the ‘Support the System that Supports You’ campaign, and use these, as well as the findings from Centrelink’s debt base analysis and other research conducted by both agencies, to inform the planning of future voluntary compliance/behaviour change campaigns.⁶³

Centrelink debt prevention materials and messages

4.55 In 2000, Centrelink developed a debt prevention information campaign with the theme ‘Don’t get into Debt’. This campaign, which involved displaying posters in CSCs, Schools, TAFEs and Universities, was used by Centrelink to encourage customers to avoid debts. In 2003, the campaign was extended to include computer screensaver messages to remind Centrelink staff about debt prevention and to encourage contact with their local DPMO for further information.

⁶³ In July 2004, Centrelink advised that the ‘Keeping it Fair’ campaign announced in the 2004–05 Budget will be based on the lessons learnt from previous campaigns and research.

4.56 This campaign was not obviously designed using information about known causes or reasons for debt, or supported by a debt prevention communication and education strategy.

4.57 Centrelink's Debt Services Team informed the ANAO that the 'Don't Get into Debt' campaign is now defunct and was replaced in December 2003 by 'Avoid a Debt' targeted fact sheets for casual and part time workers, students and indigenous customers. Market testing of these products was conducted by an external researcher to refine the main message, as well as the layout and design of the fact sheets.

4.58 Centrelink envisages that these fact sheets will be used for customer outreach work, as well as to complement the existing suite of customer information products available across the Centrelink network.

4.59 In addition, a number of Areas have commenced local projects aimed at strengthening relationships with educational institutions, staff and students, as well as developing better ways of communicating with particular customer groups. The ANAO also notes that Centrelink is currently developing a targeted Debt Prevention Communication Strategy, based on the findings emerging from the debt base analysis and customer research being undertaken at NSO and ASOs.

4.60 The ANAO encourages Centrelink to continue to enhance targeting and effectiveness of its debt prevention communication and education strategy, by incorporating findings emerging from the debt base analysis.

Debt prevention for customers with special needs

4.61 During audit fieldwork, a number of community stakeholders to whom the ANAO spoke expressed concern that the complexity of notification requirements may act as a disincentive for customers to notify Centrelink of changes in their circumstances in a complete and timely manner. A number of community stakeholders were also concerned that 'access barriers'⁶⁴ for some groups compounded this level of complexity, particularly for diverse cultural and linguistic background, youth and indigenous customers.

4.62 The ANAO observed a number of Centrelink service initiatives that were designed to address potential or known access barriers for higher risk customers, including initiatives conducted by a network of Centrelink multicultural and indigenous liaison officers, deployed across Australia in locations with high diverse cultural and linguistic background and indigenous customer numbers.

⁶⁴ Some stakeholders expressed a view that an access barrier can be real or perceived and may involve a mixture of culture, location and language issues.

4.63 The ANAO is aware of an initiative for Business Services employers (formerly known as sheltered workshops) to directly report to Centrelink, earnings details of customers with disabilities. This project will enable automatic recording of earnings and calculation of benefit payments, thus mitigating the risk of a debt being incurred due to customer error.

4.64 These initiatives are evidence of Centrelink's efforts to address the particular service needs of some customer groups. However, the ANAO notes that many of these services were developed without an explicit strategy to overcome known access barriers or special service needs that many customer groups have.

4.65 The ANAO suggests that many of the better practice aspects of these initiatives should be captured, analysed and disseminated across Centrelink, in order to improve quality of customer outcomes (which implicitly includes prevention of customer debt).

Recent service initiatives

4.66 Other recent service initiatives that have been rolled out across Centrelink include Working Credit and Personal Advisors.

4.67 Working Credit is a new scheme announced by the Federal Government as part of the *Australians Working Together* package, which started on 20 September 2003. It aims to encourage people of working-age who get income support payments, to take up full-time, part-time or casual work by allowing them to keep more of their Centrelink payments while working. People can build up 'credit' by working, and then use these credits to reduce the amount of employment income counted under Centrelink's income tests for income support payments when they first start work.⁶⁵

4.68 Personal Advisors are also an initiative of the *Australians Working Together* package. These Centrelink officers provide individualised assessment for selected customers to ensure that they are able to meet new or more flexible activity requirements. In addition, Personal Advisors offer assistance to some customers who do not have activity requirements, for example Parenting Payment customers whose youngest child is less than 13 years old. They aim to ensure that people get the right help early, by referring them to appropriate service providers and linking them to other community support. The first Personal Advisors began providing services in September 2002.⁶⁶

⁶⁵ Explanation of *Australians Working Together* on <<http://www.together.gov.au/programmesAndServices/workingCredit/default.asp>>.

⁶⁶ Explanation of *Australian's Working Together* on <<http://www.together.gov.au/programmesAndServices/personalAdvisers/default.asp>>.

4.69 Both of these initiatives have the potential to assist in debt prevention, because:

- Working Credit has the potential to remove a disincentive for accurate reporting of higher than average casual earnings, as customers' accumulated working credits can be used to directly off-set employment income, rather than having benefits reduced; and
- Personal Advisors will attempt to provide a holistic intervention and service to eligible customers, some of whom would be historically at risk of incurring a debt. Personal Advisors also remind customers of their obligations to report changes in circumstances, including declaring income from employment, in order to avoid incurring a debt.

4.70 Working Credit should reduce the 'churn' of small debts incurred by customers with casual earnings, by allowing them to draw down on their credits. However, the option of ringing in to an automated telephone system will remove the need for some customers to attend a CSC, which may reduce opportunities for customer interactions or queries about notification requirements or changes of circumstances. This is mitigated in this self-service system by asking customers if they have any changes of circumstances, and referring those customers who notify they have changes to a CSO.⁶⁷

4.71 Centrelink has identified a risk relating to verification of earnings, and to address this risk, intends to profile a minimum of 10 per cent of all customers with earnings for an earnings verification service update.⁶⁸

Service Profiling

4.72 The Service Profiling initiative, announced as part of the 2001–02 Budget, represents a major effort by FaCS to better profile customers and their service needs. Many customer behaviours that could indicate a causal link to debt propensity, have been included in the profile predictors developed for scheduling customer service updates, such as: multiple addresses in a short period of time (indicating potential homelessness); no record of earnings after an earlier period of earning (possible undeclared earnings); and other demographic and relationship predictors (possible undeclared marriage-like relationships).

4.73 Profiling is a dynamic program, with customers moving in and out of profiles depending upon the risk that has been identified. The ANAO

⁶⁷ Centrelink also provides all new reporters (non Newstart and Youth Allowance) with an Earnings Information Pack, which provides a range of information designed to assist in reporting earnings correctly.

⁶⁸ A service update usually involves an interview with a Centrelink officer to review the customer's circumstances.

understands that FaCS, which is responsible for Service Profile payment correctness predictors, always intended to further refine predictors and contact strategies, as more knowledge was gained about each predictor and groups of predictors usefulness in identifying risk.

4.74 In refining these predictors, the ANAO encourages FaCS to explicitly link predictors with known debt causes, so that emerging debt and compliance risks are captured in Service Profiling systems.

Data matching and other compliance activity

4.75 Data matching and other compliance activity can have an indirect debt prevention effect, as shown in Figure 4.3. However, Centrelink does not attempt to quantify the impact of these activities on customer behaviour.

4.76 Other visible activities that encourage compliant customer behaviour include public enforcement initiatives against non-compliant customers such as Cash Economy Task Force raids, follow-up investigations of tip-offs and prosecutions for fraud.

4.77 The ANAO encourages Centrelink to view compliance activities, and their deterrent effect, as part of the spectrum of Centrelink's debt prevention efforts. Where possible, any synergy between enforcement activity, deterrence and debt prevention should be exploited to maximise behaviour change in less-compliant or non-compliant customers.⁶⁹

Measuring effectiveness of debt prevention

4.78 Centrelink does not explicitly measure the effectiveness of its debt prevention activities. This is mainly due to:

- the intangible nature of many debt prevention activities making it virtually impossible to fully cost;
- the difficulty in developing appropriate measures;
- operational and strategic overlap between FaCS, the Debt Services Team, and Detection and Review Team activity, which can skew attribution of actual prevention work; and
- historically, FaCS has not required Centrelink to report against a debt prevention key performance indicator.

4.79 The ANAO is aware that recent research into FaCS and Centrelink's compliance framework, undertaken by Allen Consulting Group on FaCS'

⁶⁹ This reinforces a similar finding by the ANAO in ANAO Audit Report No.26 2001–02, *Management of Fraud and Incorrect Payment in Centrelink*, Chapter 4.

behalf, noted that a lack of measures for prevention can lead to insufficient emphasis on prevention as a potentially more cost effective way to maintain integrity of outlays, compared to the impact of a downstream detection regime.⁷⁰

4.80 The ANAO agrees with this view and considers that it is also important to develop appropriate external and internal performance indicators to adequately focus on debt prevention as a debt management strategy, especially compared to compliance measures. This latter consideration would require accurate attribution of savings, between prevention and compliance activities.

4.81 As discussed in Chapter 3, the ANAO is aware that Centrelink and FaCS intend to jointly develop an external key performance indicator, or output measure, for debt prevention.

Recommendation No.5

4.82 The ANAO *recommends* that, to help support debt prevention initiatives, Centrelink develop a set of internal performance indicators that accurately measure, and/or assess, the effectiveness of debt prevention activities.

Centrelink response

4.83 Centrelink **agrees** with this recommendation. Centrelink will look at the feasibility of developing an internal performance measure for debt prevention in conjunction with the development of a framework for the management of debt prevention.

Conclusion

4.84 Centrelink has actively attempted to improve the profile and importance of debt prevention in the agency, particularly by articulating its objectives in the *Debt Servicing Strategy 2001–04*.

4.85 Similarly, Centrelink has recently improved its debt prevention strategy development, by moving away from a reliance on anecdotal information that led to disjointed and ad-hoc efforts in the past. Centrelink has also recently developed, and begun to implement, debt prevention project arrangements and protocols to promote debt prevention measures based on empirical research.

4.86 Centrelink's Debt Services Team was facing difficulties in coordinating debt prevention and management initiatives across the agency, including monitoring the performance of debt prevention activities in Areas, and

⁷⁰ The Allen Consulting Group, *FaCS and Centrelink Compliance Review*, 2004, p. xviii.

encouraging Areas to adopt better debt prevention practices. To improve leadership and coordination of debt prevention and management initiatives by the Debt Services Team, Centrelink may benefit from reviewing the implementation of debt prevention activities across the network, to ascertain better practice.

4.87 Finally, the ANAO concluded that Centrelink does not effectively measure its debt prevention activities. At the time of reporting it had not developed external or internal debt prevention performance indicators.

5. Identification of Overpayments

This chapter examines the processes used by Centrelink to identify overpayments made to customers, including routine processes and procedures, compliance activity and Service Profiling.

Introduction

5.1 Identification of overpayments is a key process for debt management. This process of identifying potential debt initiates the determination and calculation (or raising) of the debt so that the overpayment can be lawfully recovered. Centrelink aims to identify overpayments in a timely manner, to minimise the overpaid amount, and consequent debt raised, for the benefit of both Centrelink's client (FaCS) and the customer.

5.2 The ANAO examined Centrelink's debt identification systems and processes, to evaluate how effectively they were integrated into other debt management processes. This chapter also discusses integration issues surrounding the identification of overpayments in Centrelink. In examining compliance programs, the ANAO focused mainly on their capacity to identify debts. The processes to raise and recover these debts are addressed in Chapters 6 and 7.

5.3 The ANAO did not attempt to assess the accuracy of CSO coding and data entry, nor computer recalculations. Furthermore, the ANAO did not assess the relative merits of different compliance programs in identifying debt, nor the effectiveness of compliance programs in providing on-going 'savings', as opposed to effectiveness in identifying debts. However, a recent report to FaCS comprehensively reviewed existing compliance activities.⁷¹

Identification of debt by review (compliance and non-compliance)

5.4 Centrelink identifies overpayments in several ways, including:

- formal reviews—compliance, program (or host⁷²), tip-offs, and/or Service Profiling;

⁷¹ The Allen Consulting Group, *FaCS and Centrelink Compliance Review*, 2004.

⁷² A program or host review is an activity initiated by Centrelink to ascertain whether a customer is receiving his or her correct entitlement. The review may be generated by the computer system or it may come from a staff member. Examples of program reviews are cyclic reviews (for example, every four weeks) and event based reviews (for example, the birth of a child).

- customer initiated re-assessments;⁷³ and
- automated updates.

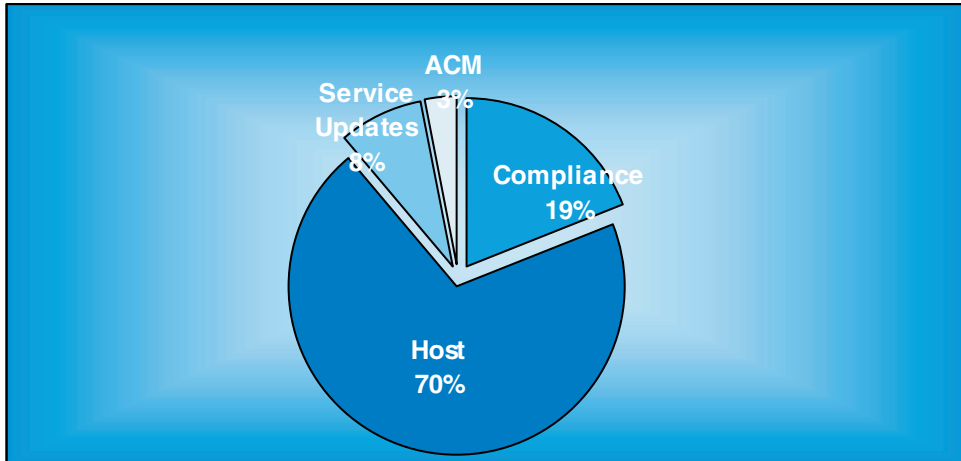
5.5 Under the Social Security Law, customers are required to disclose information about changes in their personal and financial circumstances that affect their entitlement. However, there are risks associated with a reliance on voluntary disclosure by customers, as people can fail to report relevant changes when they occur either through lack of understanding of their obligations, omission, mistake, or deliberately misrepresenting their circumstances.

5.6 Activities directed at ensuring compliance and detecting non-compliance, have a number of benefits for Centrelink. These include providing a level of assurance to the community and client agencies that customers who receive incorrect payments will be detected and brought to account, as well as actually recovering losses from incorrect payments.

5.7 In 2002–03, Centrelink completed approximately 4.4 million customer reviews. Centrelink’s review framework consists of several streams including compliance reviews, program reviews, and a more recent addition to the review framework, Service Profiling reviews.

5.8 The bulk of reviews completed by Centrelink during 2002–03 were program reviews, followed by compliance reviews and Service Profiling reviews. Figure 5.1 illustrates the composition of reviews undertaken by Centrelink.

⁷³ Social security recipients have an obligation to inform Centrelink about changes in their circumstances. Based on these changes, Centrelink conducts a re-assessment of a customer’s circumstances, which can lead to a variation in the rate of payment a customer receives, or in some cases to cancellation of payment. This process of updating a customer’s details on the advice of the customer is known as a customer initiated reassessment.

Figure 5.1**Composition of customer reviews undertaken by Centrelink**

Notes: ACM is accelerated claimant matching (or data matching). Host reviews are also known as program reviews.

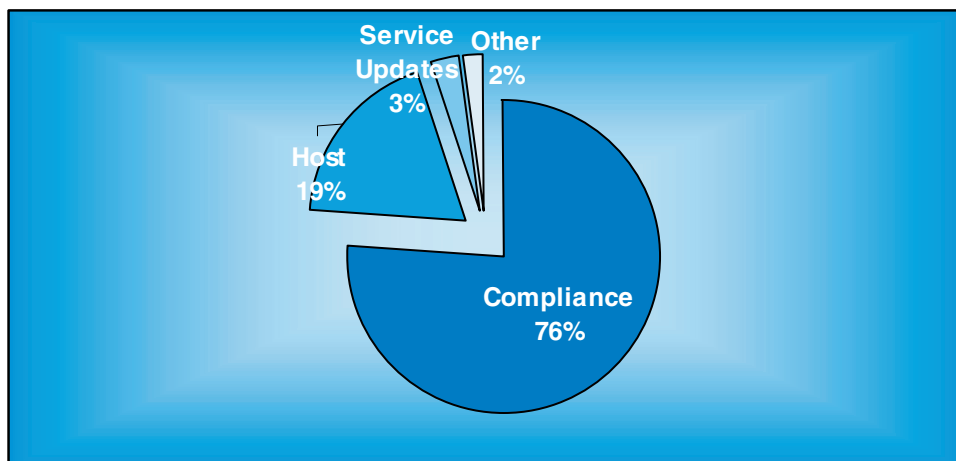
Source: The Allen Consulting Group, *FaCS and Centrelink Compliance Review*, Final Report, January 2004, p. 63.

5.9 Although host (or program) reviews account for the majority of reviews undertaken, compliance reviews account for the majority of debts identified. However, current processing and design issues in program reviews and Service Updates leads to some debts not being attributed to the correct review or service update. Enhancements currently planned for the Centrelink Integrated Review System and Service Profiling should enable these reviews and service updates to be correctly identified and therefore attributed and reported accurately.

5.10 Figure 5.2 illustrates the percentage of debts raised by each review type. Together, Figures 5.1 and 5.2 illustrate that a compliance review is much more effective in identifying debts than a host review or Service Profile review. However, Service Updates and program reviews are also conducted for non-payment outcomes (such as to update customer details). Accordingly, the ANAO expected that compliance reviews would be more effective in identifying debts. While this information needs to be supplemented by information on the average costs of reviews, it suggests Centrelink may be able to improve the effectiveness of its review effort by either focussing more intensively on compliance reviews, or improving the performance of other review types.

Figure 5.2

Percentage of debts raised by review type



Source: The Allen Consulting Group, *FaCS and Centrelink Compliance Review*, Final Report, January 2004, p. 73.

Compliance reviews

5.11 Centrelink has an active detection and review program which aims to detect overpayments and fraud via a number of compliance tools including:

- data matching (internally and with various agencies);
- tip-offs; and
- investigations and surveillance.

5.12 When assessing the effectiveness of Centrelink’s compliance regime in identifying debts, the ANAO limited its analysis to examining the:

- overall cost benefit of compliance activities;
- effectiveness of compliance operations in detecting debt; and
- level of communication between compliance teams and other areas of Centrelink involved in debt management (which contributes to achievement of a holistic approach to debt prevention, detection and recovery).

Cost effectiveness of compliance activities

5.13 Centrelink was unable to provide data about the specific cost of individual compliance activities. A review of FaCS and Centrelink’s compliance activities, undertaken by Allen Consulting Group on FaCS’ behalf, also encountered this difficulty. However, Centrelink was able to provide information that indicated the general cost of compliance review activity.

5.14 In 2001–02, the ANAO undertook an audit of fraud and incorrect payment in Centrelink. A major finding in this audit was:

Centrelink did not have costing information available in a sufficient level of detail to enable the cost effectiveness of compliance activities to be assessed. Centrelink could not, therefore, make informed decisions regarding resource allocation for different review activities; determine the most effective compliance strategies for reducing the level of fraud and incorrect payment; or accurately price compliance strategies.

Centrelink advised the ANAO that it is currently undertaking an Output Pricing Review and negotiating a new Funding Model. The Output Pricing Review provides an opportunity to improve the transparency of pricing as well as improving internal strategic cost management initiatives. The Output Pricing Review will support the development of the new Funding Model in relation to a better understanding of outputs in terms of price, quantity, quality and risk.⁷⁴

5.15 The ANAO notes that work is presently being undertaken by Centrelink to address the findings of Audit Report No. 26, 2001–02, *Management of Fraud and Incorrect Payment in Centrelink*, which were also identified in Audit Report No.60, 2001–02, *Costing of Operational Activities and Services Follow-up Audit*. However, as these new compliance-costing measures were not implemented at the time of audit fieldwork, the ANAO was unable to ascertain either their quality or effectiveness.

5.16 During the course of this audit, Centrelink advised the ANAO that compliance activities are reported in both the Centrelink Funding Model and Strategic Cost Management (CFM/SCM) under the Income Support Review, Notifiable Events, Debts Raised and Recovered cost drivers. Each activity has been process mapped and a Relative Effort Weight derived to enable costs to be calculated. The CFM is scheduled for implementation on 1 July 2004. CFM/SCM could provide vastly improved transparency of costs of outputs by cost driver and individual tasks completed.

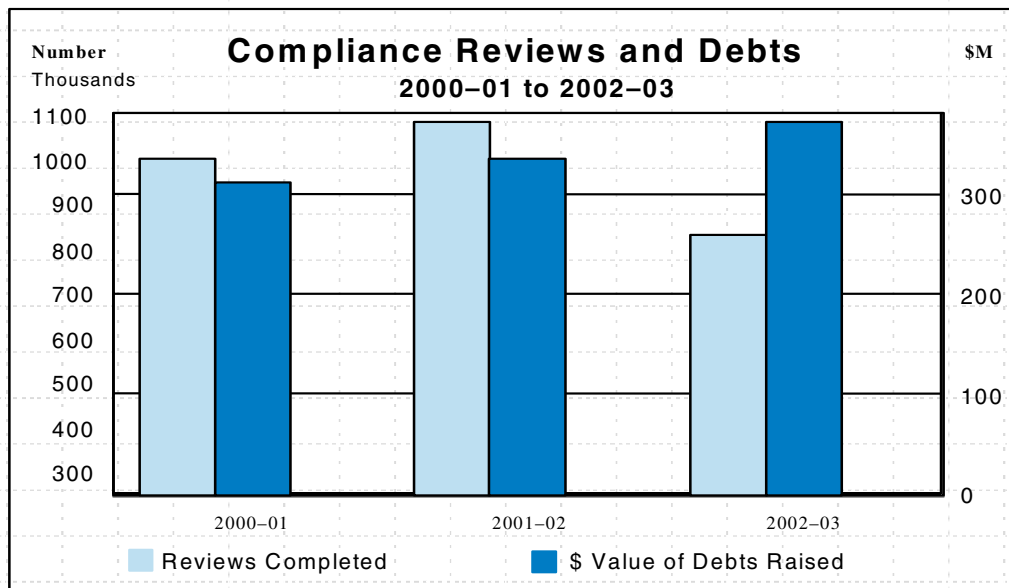
Effectiveness of compliance operations in detecting debt

5.17 Centrelink's compliance operations steadily improved their performance in detecting debt over the period 2000–01 to 2002–03. This was mainly due to improvements in the quality of compliance programs, which were underpinned by improved risk management. Figure 5.3 illustrates that better targeting of compliance reviews resulted in a reduced number of reviews identifying an increased value of debt.

⁷⁴ ANAO Audit Report No.26 2001–02, *Management of Fraud and Incorrect Payment in Centrelink*, p. 25.

Figure 5.3

Compliance reviews and debts raised 2000–01 to 2002–03



Source: Data provided by Centrelink, 2003.

5.18 As well as identifying and recovering debt, the compliance program also aims to reinforce compliant customer behaviour through the general deterrence effect of investigations and prosecutions, and active publicity of convictions of offenders.

Communication between compliance teams and other debt servicing teams

5.19 The ANAO found that Centrelink compliance teams acted quite independently at the network level. That is, compliance teams tended to work through their lists of customers targeted for compliance reviews, with little interaction with other debt servicing officers, such as those involved in debt prevention, debt raising and debt recovery.

5.20 While this approach is generally appropriate, the ANAO believes there are opportunities for compliance staff at the network and national level to better communicate messages obtained from interactions with customers, especially to inform debt prevention efforts (see Chapters 2 and 4).

Main types of compliance reviews

Data matching

5.21 Centrelink conducts ongoing and systematic data matching activities that aim to match customer details with information held by other agencies such as the Australian Taxation Office, the Child Support Agency, the

Department of Immigration and Multicultural and Indigenous Affairs, and the Health Insurance Commission. Centrelink also internally matches customer records and data to detect possible identity fraud and undeclared co-habitation by customers.

5.22 Discussion with Centrelink's Detection and Review Team indicated that in 2002–03, data matching was responsible for 78 per cent of all debts raised as a result of review activity.

5.23 The ANAO also noted that Centrelink is actively seeking to examine and research emerging compliance risks, improve data match coverage and quality with the Australian Tax Office, and automate processing of data matching via computer system enhancements.

5.24 It was outside the scope of this audit to determine the cost effectiveness of Centrelink's data matching activities. However, the ANAO notes that the recent review of FaCS' and Centrelink's compliance activities and performance reported that, at an aggregate level, these data matching activities appear to be cost effective, in terms of net savings to outlays and gross debt raised, compared to costs of the program.⁷⁵

Tip-offs

5.25 Centrelink has established a National Tip-off Reporting Centre in Perth. The National Tip-off Processing (TIPS) Team is responsible for assessing tip-offs to identify current Centrelink customers, and refer relevant cases to Area Compliance Teams for further investigation. Tip-offs are referred from Call Centres (including the report-a-fraud number), CSCs, the Internet and mail.

5.26 The ANAO visited the National Tip-off Reporting Centre during fieldwork for this audit and observed that information collection and initial investigation processes were systemised and streamlined. The ANAO also observed the follow-on effect of tip-offs, which account for seven per cent of all compliance reviews conducted.

5.27 The National Tip-off Reporting Centre provides an additional compliance tool, as it allows Centrelink to identify activities that other compliance or program reviews would not detect. Common activities subject to tip-offs include customers living in marriage-like relationships, without declaring this relationship to Centrelink, and customers undertaking 'cash in hand' work, that would not be detected by Centrelink's data matching programs with the Australian Taxation Office.

⁷⁵ The Allen Consulting Group, op. cit., p. 62.

Investigations teams

5.28 As well as data matching and tip-off activities, Centrelink has a range of specialist Area-based investigative teams. These teams have primary responsibility for Centrelink's field-based fraud detection, investigation and prosecution activities relating to cash economy activities and identity fraud. Teams are responsible for gathering evidence in the field about customer non-compliance and potential fraud. They liaise with external agencies, including law enforcement agencies, to assist with investigations and, where required, seek the assistance of a panel of private agencies that provide optical surveillance capabilities to gather evidence of non-compliance.

5.29 Centrelink is a member of the Cash Economy Task Force established in 1997 by the Commissioner of Taxation to address compliance issues relating to the cash economy. As a member of this task force, Centrelink has been actively involved in the preparation of the three reports issued by the task force and subsequent initiatives aimed at addressing cash economy activity. As a result of recommendations from the first report issued in May 1997, the Australian Taxation Office, Centrelink and the Department of Immigration, and Multicultural and Indigenous Affairs formed the Cash Economy Working Group. Since 1997 this group has been actively involved in developing initiatives aimed at enhancing cross-agency coordination of compliance and fraud control activities associated with cash economy activity. Activities progressed by the working group include an initiative to outpost Centrelink investigators to the Australian Taxation Office and the implementation of dedicated Cash Economy Investigation Teams across Centrelink.

5.30 As a result, Centrelink is actively involved in cross-agency investigations with agencies such as the Australian Taxation Office, the Department of Immigration and Multicultural and Indigenous Affairs, the Australian Federal Police and to a lesser extent, various State Police Services, the Australian Customs Service and a range of other State and Federal agencies. The ANAO observed that Centrelink has taken a proactive role in this working group and has been involved in a number of high profile operations in high-risk industries, such as seasonal harvesting work and taxi driving.

Service Profiling

5.31 Service Profiling is a means of identifying which customers need a more targeted level of service to assist them to meet program outcomes. The implementation of Service Profiling is staggered, with the first of the new customer reviewing mechanisms implemented on 16 September 2002. When fully implemented, Service Profiling will replace all former host (or program) reviews for all payments.

Working Credit verification

5.32 Service Profiling's direct debt identification role is expected to increase once the 10 per cent random verification of Working Credit self-reported earnings is fully rolled out over 2004.

5.33 The ANAO supports this verification approach as a means of treating the risk that self-service channels may provide less compliant customers with more opportunity to under-declare earnings. It will address the risk that arose through the removal of previous requirements for face-to-face interaction, such as lodging forms in person.

5.34 The ANAO suggests that employer data captured during self-reporting by customers, such as business name and Australian Business Number, could be further exploited as an information source for inter agency cooperation in data matching and compliance investigations.

Customer Service Officer identification of overpayments (customer initiated re-assessments)

5.35 The role played by CSOs in correctly identifying overpayments in a timely manner revolves around their ability to identify a notifiable event that can trigger an overpayment. This identification usually occurs during a customer-initiated re-assessment, where a customer voluntarily advises Centrelink of a change in his or her personal circumstances.

5.36 Once a corresponding change in the record of the customer's details has been identified, this event then needs to be correctly coded on the customer's electronic record in the payment system, including the correct date of effect for the event. This enables CSOs to assess whether the event occurred within the required notification period, and if not when should the start date of a particular overpayment commence.

5.37 Thus, in general terms, the role of a CSO in identifying a potential debt is limited to correctly identifying that an overpayment has occurred, ensuring that any documentation is attached to the customer's paper file, and that details of the overpayment are coded on the electronic payment system. Once this 'activity' has been finalised by the CSO, there is no further requirement for the CSO to investigate the potential debt, as the resulting 'debt shell'⁷⁶ will be automatically mapped to a specialist debt raising team (described in Chapter 6).

⁷⁶ A debt shell refers to the electronic creation of an item that identifies and records the existence of a potential customer debt.

5.38 A number of actions can trigger a debt shell. Some examples of trigger events include:

- late notification by customers of changes in assets, income or personal circumstances;
- delayed receipt (that is, after the date of effect) by Centrelink of information such as superannuation data and foreign pension income; and
- failure by customers to lodge a specific form by the required date.

5.39 Centrelink has made attempts to streamline the workflows that lead to identification of overpayments such as by using the Multi Purpose Scriptor,⁷⁷ which is designed to capture as much information as possible about a customer's change of circumstances when they have an interaction with Centrelink.

5.40 Customers on stimulus payments such as Youth Allowance and Newstart are required to regularly submit to Centrelink, generally every two weeks, forms detailing the customer's activity during this time. These forms contain information such as earnings and address details. During fieldwork, the ANAO observed that forms are processed in a cursory manner if the customer doesn't identify any changes of circumstances.

5.41 As the majority of debts generated under stimulus payments relate to the under-declaration of earnings, the ANAO suggests that Centrelink further consider the merits of a risk-based requirement for customers to validate information about their earnings (such as via presentation of payslips or direct employer verification of earnings). This would enhance the preventative and deterrent effect upon the customer, as well as reduce employer workloads generated by Centrelink due to any later requirement to review the customer's earnings. Centrelink would need to weigh these potential benefits against the higher resource costs of validating customer information when it is initially provided.

Automatic identification of overpayments

5.42 Although the ANAO did not attempt to test the accuracy of automatic calculations triggered by changes of customer circumstances, it did observe general Centrelink work practices and held discussions with key officers directly involved in identifying and detecting overpayments.

⁷⁷ Scriptors are a work-flow tool developed by Centrelink which aim to standardise and automate processes used by CSOs to enter data into the various screens of the payment systems. Scriptors also assist CSOs with pre-scripted documents to be placed on the customer's record.

5.43 The ANAO observed that, once a customer's notifiable event triggers a debt shell for a 'non-compliance generated' overpayment on their electronic record, it is automatically referred to a debt raising team for calculation and determination (discussed in Chapter 6). The estimated value of the debt is automatically calculated by the host system's 'notification handler' using the data coded against the customer's file by a CSO, or by a batch automated process.

5.44 An internal audit conducted by Centrelink in 2002, indicated that some host system-based estimates were inaccurate and, in particular, the payments system was generating a number of debt shells that were later 'finalised no debt'.

5.45 In response to this finding of the internal audit, the relevant area of Centrelink responded that:

the September 2003 system release (...) will allow the system to more accurately calculate debts. Staff will still be required to manually raise the debt on the Debt Management Information System (DMIS), however the vast majority of system generated debt estimates can be relied on as accurate.⁷⁸

5.46 Centrelink officers also informed the ANAO that, in the past, not all potential overpayments automatically trigger recalculations and the generation of debt shells by the payment systems. They advised that this was due to issues related to system incompatibility or linkages between customers, or different definitions of assets and income for various payments. During fieldwork, the ANAO noted the following examples where a system anomaly triggered a debt:

- Youth Allowance recipients becoming liable for a debt if they fail to inform Centrelink that their parent has gone off a benefit (even though Centrelink already has this information on another payment system); and
- recipients of the Parenting Payment Partnered Program (PPP) becoming liable for a Family Tax Benefit Part B debt, if their primary Centrelink benefit income passes a threshold amount (even though Centrelink has information on the exact amount that has been paid to the parent, albeit on a separate payment system).

5.47 The ANAO notes that the system anomaly for Youth Allowance was rectified by the Parental Income Test (PIT) Linking Project, with a system change implemented in December 2003. Debts arising from reassessments made to customer records under PIT linking may be subject to waiver under a

⁷⁸ Centrelink 2002, *Action Undertaken in Response to Key Findings of the Debt Management Internal Audit*, August.

disallowable instrument tabled in the Parliament in February 2004, and subject to strict conditions.

5.48 The payment systems that administer PPP and FTB payments are not linked. Consequently, when a customer updates information relating to their FTB payment, their PPP payment is not automatically updated, and vice versa. This can subsequently cause an overpayment of the customer's benefits, as some customers are not aware that they have to advise Centrelink of income changes separately for each benefit stream.

5.49 To link the PPP and FTB payment systems would require a legislative amendment. However, Centrelink advised that from March 2004 onwards, a system check identifies when Parenting Payment customers/partners have zero estimates. When the customer/partner contacts Centrelink with a change in circumstances (for example, when reporting income for Parenting Payment or Newstart Allowance) which results in a reassessment of their parenting payment, the customer will need to provide a reasonable estimate of income to the Family Assistance Office before the reassessment can be completed.

Integration issues

5.50 The ANAO also examined issues of integration of the various systems and processes for identification of overpayments.

5.51 The ANAO noted throughout the fieldwork for this audit that many Centrelink staff, both in NSO and the network, viewed debts as fitting broadly under either a 'compliance' or 'non-compliance' umbrella. The ANAO considers that this delineation may cause an artificial separation of roles and responsibilities within the overall effort to detect an overpayment as soon as possible, regardless of the cause of the debt.⁷⁹

5.52 The recent review of FaCS and Centrelink's compliance framework also examined integration of the overall compliance framework and commented that, apart from the requirement for a compliance framework to be integrated from the operational to strategic level, the compliance effort also needs to inform policy development and program design, and vice versa.⁸⁰

5.53 The ANAO agrees with this view, and suggests Centrelink broaden its assumptions as to functional roles to detect overpayments, aiming to detect the overpayment as close to the cause of the potential debt event, by developing a balanced strategy that considers the relative cost and effectiveness merits of

⁷⁹ For example, an overpayment detected via a Tax File Number Declaration Form data match [compliance overpayment], may potentially have been detected up to three months earlier by a CSO [non-compliance overpayment] asking a direct question to a customer.

⁸⁰ The Allen Consulting Group, op. cit., p. 62.

'upstream' (staff training, better procedures, system enhancements) and 'downstream' (compliance) controls.

Conclusion

5.54 Evidence examined by the ANAO indicated that Centrelink's review procedures were generally effective in identifying debts. The increase in debt raised by compliance reviews, accompanied by a decrease in the number of reviews undertaken, demonstrates an improvement in the targeting and effectiveness of this type of review.

5.55 The use of Service Profiling, as a risk-based substitute for the mandatory host (or program) reviews, offers Centrelink the opportunity to further improve its debt identification operations through a better targeting of resources. However, it is also vital that Centrelink is able to use the risk predictors contained in the Service Profiling methodology, to further enhance its own research into the customer debt base and, subsequently, further improve debt operations within the agency. Centrelink and FaCS are making progress towards this. Furthermore, Centrelink is improving internal coordination through the appointment of a National Manager to manage service delivery issues in Profiling and Reviews, and through the establishment of a specific business team to manage the FaCS relationship for Profiling across payments.

5.56 The current overpayment identification process appears effective, in terms of volume and value. However, compliance and non-compliance processes used to identify overpayments could be better aligned and integrated to maximise the effective identification of an overpayment, as closely as possible to the time when the overpayment first occurs.

6. Debt Raising

This chapter reviews Centrelink's processes and performance in raising debts. It separately examines debts raised by compliance and non-compliance teams. It also examines debt waivers in detail.

Introduction

6.1 The process for raising a debt primarily involves a specialist CSO calculating the value of an identified potential debt, determining whether it should be raised as a debt, advising the customer of the value of the debt, and answering relevant customer questions.

6.2 Raising debts is the result of a re-assessment of a customer's entitlement. Centrelink aims to accurately calculate the value of the debt, determine whether the debt is payable in accordance with relevant legislation, and clearly inform the customer of the outcome (and avenues for related advice and appeal), all in a timely fashion.

6.3 Debts raised against a customer are raised for a number of reasons, the most common being a failure by a customer to promptly advise Centrelink of a change in their circumstances—in particular, the failure to advise Centrelink of earnings derived from employment or of changes in circumstances that may impact on eligibility for payment (see Figure 4.1 in Chapter 4).

6.4 During the past two years, Centrelink has undertaken major reforms of its debt raising processes. Foremost has been the removal of responsibility for raising debts from individual CSOs located in CSCs, to specialist CSOs located in centralised debt raising teams. Centrelink has also introduced and improved a number of system-based tools aimed at increasing the timeliness and accuracy of raising debts.

6.5 As a result of these reforms, debts are raised either by specialist debt raising CSOs, or Compliance Review Officers located in the Centrelink network.

6.6 In assessing whether Centrelink manages debt raising consistently across its network, the ANAO examined:

- specialist debt raising processes in the Centrelink network;
- debts raised by Compliance Review Officers; and
- debt raising performance, for both compliance and non-compliance debt.

6.7 The ANAO gave special attention to issues surrounding debt waiving. According to stakeholder groups that the ANAO contacted during fieldwork,

this is an important issue for customers that requires further attention by Centrelink. In conducting its analysis, the ANAO examined the implementation of many recommendations of a recent internal audit into debt raising.⁸¹ The ANAO also sought to identify examples of better practice through field visits to several Areas' debt raising and compliance teams.

Background

6.8 Over the past three years, the value of benchmark debt raised by Centrelink increased steadily, reaching \$967 million at 30 June 2003. This increase in debt raising can be mainly attributed to better targeted compliance activity, a higher proportion of identified potential overpayments resulting in debts, and increased welfare outlays.

6.9 Once a potential debt is identified, a debt shell is created. A decision is then made about whether to raise the overpayment as a debt for recovery, 'finalise no debt' or 'determine but waive'.⁸² Figure 6.1 shows that in recent years the proportion of debt shells 'finalised no debt' has reduced sharply, with a resulting increase in the value of debts raised. This trend has resulted from improvements to Centrelink guidance about when to 'finalise no debt', partly in response to a recommendation in the recent internal audit on debt management.⁸³

6.10 For the purpose of this audit, the ANAO regards debt raising specifically as the process of raising a debt for recovery. Debt determination relates to the processing of all debt outcomes, including raising, finalising no debt, and waiver.

6.11 Improved guidance about when to 'finalise no debt', was just one component of a major Centrelink initiative commenced in 2001 to improve debt raising. This began with a review of debt servicing in July 2001, that identified an 'unacceptable level of error' in the quality of debt processing by non-compliance teams.⁸⁴ The other main problem with debt raising at that time was the large backlogs of unprocessed debts in some Areas.

⁸¹ Centrelink, 2002, *Debt Management*, Audit Report, August.

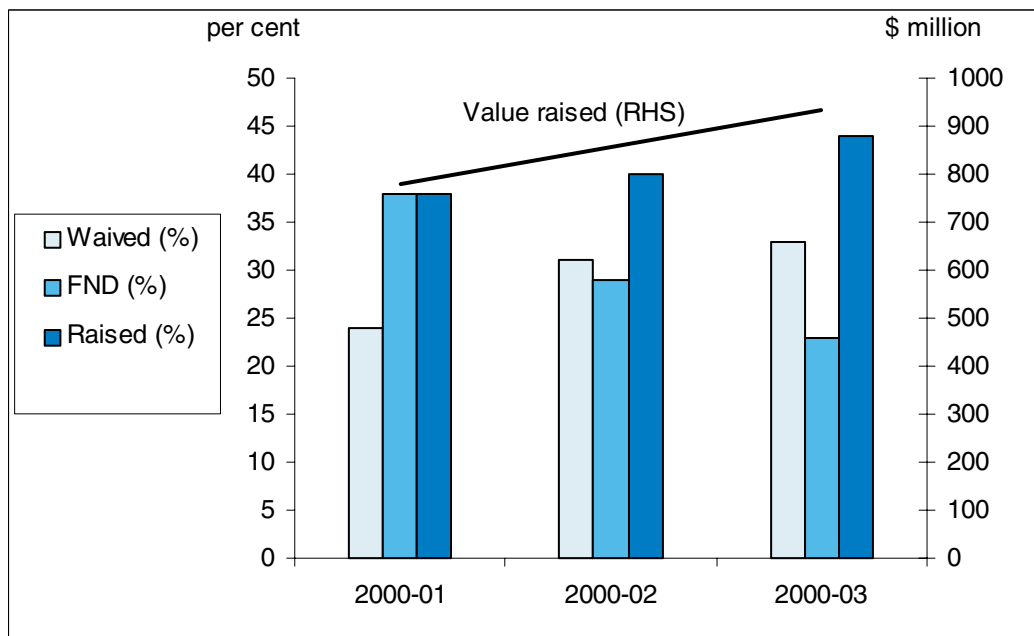
⁸² A debt shell may be automatically generated by the system as a result of a reassessment or review. If subsequent analysis indicates that the value of the debt is zero, it will be 'finalised no debt'. If the debt is greater than zero, then, based on the relevant provisions of Social Security Law, a CSO can then exercise their discretion to either raise the debt or waive it.

⁸³ Centrelink, 2002, *Debt Management*, Audit Report, op. cit., finding No.5, p. 17.

⁸⁴ Referred to in Centrelink 2002, *Debt Raising Project Phase Two, Evaluation Report Part 1*, September, p. 6.

Figure 6.1

Total amount of benchmark debt determined by Centrelink 2000–01 to 2002–03



Notes: 'Raised'—Debt raised for recovery, 'Waived'—Determined and waived, 'FND'—Finalised no debt. These three parameters on left hand axis, and based on the number of debts. 'Value raised' on right hand axis (\$ million).

Source: Data provided by Centrelink, 2003.

6.12 As discussed in Chapter 3, poor performance in debt raising was often largely due to debt management being poorly monitored and often 'seen as low priority work',⁸⁵ as well as processing issues, such as those discussed in paragraphs 6.22 to 6.24.

6.13 Towards the end of 2001, Centrelink developed a *Debt Servicing Strategy*, discussed in Chapter 2. The strategy identified a number of issues across debt servicing and presented details of goals, objectives and continuous improvement strategies. Specifically, for debt raising, several objectives were identified:

- staff expertise needs to be enhanced;
- closer monitoring of detailed performance measures;

⁸⁵ Centrelink, 2002, *Debt Management*, Audit Report, op. cit., p. 5.

- the 'Getting it Right' strategy places an emphasis on the accuracy and timeliness of debt processing and provides tools to assist; and
- further investigation of the options, lessons learnt and performance management required.⁸⁶

6.14 The *Debt Servicing Strategy* led to the development of the Debt Raising Project and a subsequent major restructuring of Centrelink's non-compliance debt raising operations.

Debt Raising Project

6.15 The Debt Raising Project involved initially trialling and making recommendations on a variety of debt raising models. Specifically, five different models of debt raising processes were trialled across a number of CSCs, and their performance, in terms of quality and timeliness was compared to control sites. However, the project did not include debts raised by Compensation or Compliance Teams.

6.16 At the conclusion of the trial, it was recommended that two of these models, Models Three and Four, be implemented as the primary structure for debt processing within the Centrelink network. This was on the basis that these models demonstrated the most significant improvement in overall performance when compared to their respective control sites.

6.17 Models Three and Four both prescribe the centralisation of non-compliance benchmark debt processing into Specialist Debt Raising Teams, the only difference between the two models being the degree of centralisation. Model Three is based on Specialist Debt Raising Teams being based in each CSC and actioning all non-compliance debts for their respective CSC. Model Four involves a Specialist Debt Raising Team actioning all non-compliance benchmark debt for a cluster of CSCs, or the entire Area network of CSCs. Figure 6.2 illustrates the structure of the two models.

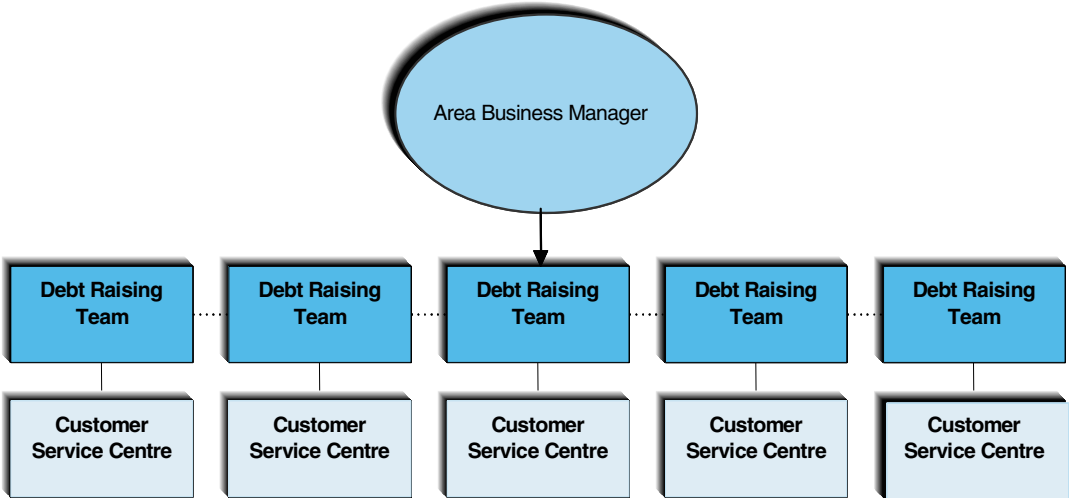
6.18 Under both of these models, once a CSO in either a CSC or Call Centre actions an activity that has the potential to create a customer debt (a debt shell), this shell is then forwarded, via system workflows, to the Specialist Debt Raising Team where the debt is processed (that is, either raised, waived or finalised no debt).

⁸⁶ Centrelink, *Debt Servicing Strategy 2001–2004*, op. cit., p. 6.

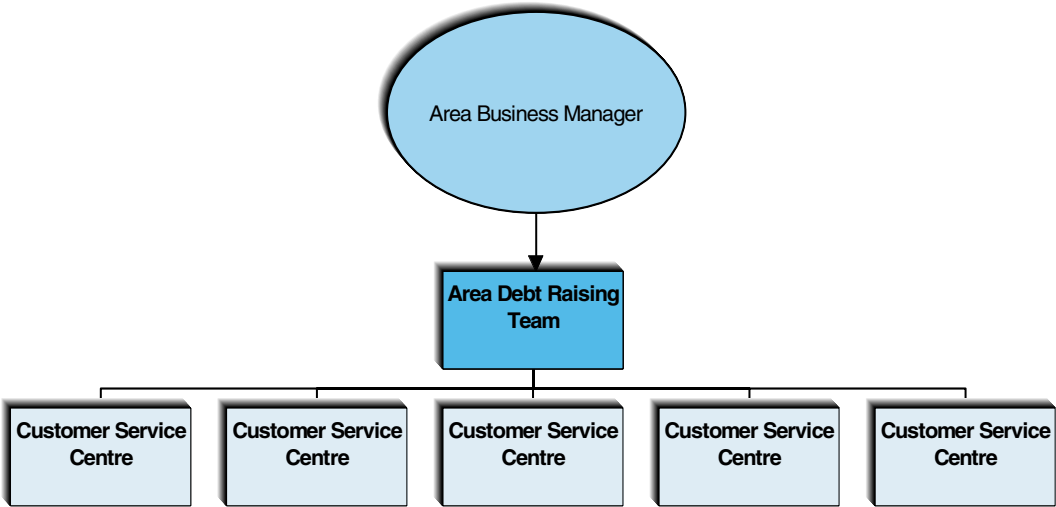
Figure 6.2

Debt raising models implemented by Centrelink

Model 3: Specialist Debt Raising Teams based in each CSC



Model 4: Area-based Specialist Debt Raising Teams



Source: Figure produced by ANAO, based on information provided by Centrelink, 2003.

Debt raising processes in the network: specialist debt raising teams

6.19 Centrelink implemented specialist debt raising processes for non-compliance debt in mid-2003, on an Area basis. Most Areas implemented Model Four, while Area Brisbane and Area Western Australia implemented Model Three.

6.20 The ANAO assessed whether the new regime:

- represented significant improvements over the previous arrangements;
- provided effective debt raising processes; and
- had scope for further improvement.

6.21 At the time of audit fieldwork, even though the new debt raising structure had only been in place for several months, the ANAO was able to gain significant feedback from both management and staff on what they thought were the comparative advantages of the new regime compared to the previous arrangements.

Advantages from moving to the specialist debt raising regime

6.22 Prior to the mid-2003 implementation of the new debt raising structure, responsibility for raising non-compliance benchmark debt rested with individual CSOs within the network. When a customer advised Centrelink of a change in circumstances that created a debt, the responsibility for raising this debt rested with the individual CSO who was the point of contact for the customer.

6.23 This procedure presented a number of obstacles for the efficient and consistent raising of benchmark debt by Centrelink across its network. According to debt raising staff and CSC staff interviewed during fieldwork, these obstacles included: the adverse culture within the agency towards raising debt; the low level of priority attached to debt raising by many CSCs; and the reluctance by CSOs to have to deal with customers on such a negative issue as debt. These obstacles resulted in significant amounts of debt not being raised by CSOs.

6.24 These CSOs further stated that the complexity of the debt raising process, and the lack of adequate system-based tools to support them to calculate debts, had compounded these obstacles. CSOs, including those responsible for checking the quality of debts being raised, were poorly trained in the processes of debt raising, and this also contributed to an agency culture of placing a low priority on raising debt.

6.25 The ANAO considers that the move to specialist debt raising models (for non-compliance debt) has overcome many of these problems, and therefore improved debt raising capacity in Centrelink, mainly because:

- it has resulted in much higher importance being attached to accurate and timely debt raising across the network in general, and especially for a number of Areas that had previously been performing poorly;
- the selection of suitable officers for debt raising, and their subsequent training, has produced highly skilled debt raising officers; and
- it overcomes the reluctance of CSOs in high customer contact areas to raise debts, as this activity is now transferred to specialist staff.

6.26 In addition to restructuring debt raising activities, Centrelink has improved a number of important technical support tools for debt raising officers, making their job considerably easier. This has included improvements that addressed three recommendations of Centrelink's internal audit of Debt Servicing finalised in August 2002, namely:

- the introduction of an adequate automatic debt calculator, 'Multical' (finding No.4);
- the automation of an associated system to calculate tax adjustments arising from debt raising and finalisation (finding No.3); and
- an improved scriptor to ensure that documentation is available to support debt raising decisions (finding No.2).

Effectiveness of Centrelink's specialist debt raising processes

6.27 Effectiveness depends on maintaining the integrity of processes and practices over time, particularly as reflected in performance results. When assessing the effectiveness of Centrelink's specialist debt raising process, the ANAO sought to examine available data that measures Centrelink's performance in debt raising.

6.28 The main indicators used by FaCS and Centrelink to measure the performance of debt raising monitor timeliness and accuracy. Timeliness is measured against a performance benchmark of 80 per cent of debts being raised within 56 days of the debts being identified. Accuracy is primarily measured against the agreed key performance indicator in the 2001–2004 BPA between Centrelink and FaCS, requiring that 95 per cent of all transactions are accurate.⁸⁷

⁸⁷ Chapter 3 discusses the adequacy of external and internal measures, including debt raising.

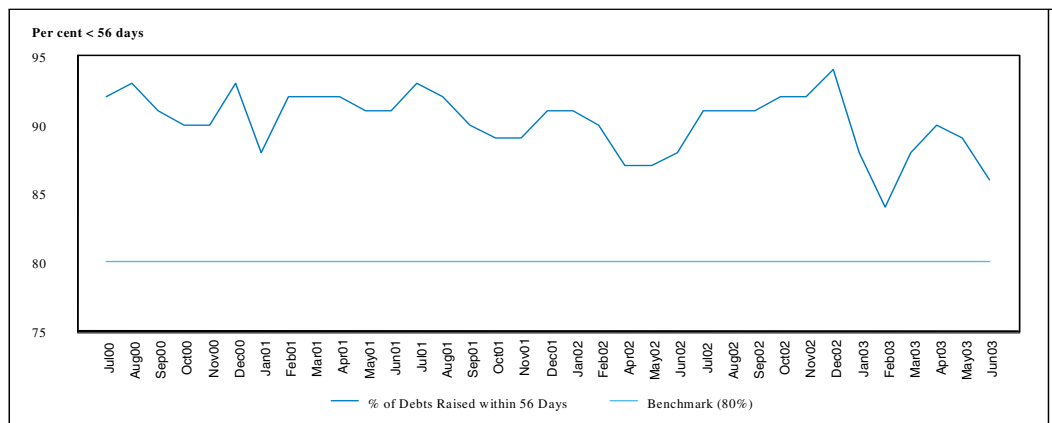
Timeliness of debt raising in the network

6.29 Timeliness in debt raising is important as it provides for: good customer service; faster recovery of the debt; efficient use of resources; and an easier investigation of the issues relating to the cause of the debt.

6.30 Figure 6.3 demonstrates that Centrelink has comfortably met the timeliness benchmark of 80 per cent of debts being raised within 56 days of identification. This suggests that overall timeliness of debt raising was adequate as most customers were notified of the existence and value of debts within a reasonable timeframe.

Figure 6.3

Timeliness of debt raising, debts raised within 56 days, July 2000 to June 2003



Source: Centrelink, *Analysis of Debt in Centrelink*, Paper 1.

6.31 Debt raising timeliness trended down between June 2000 and June 2003. Centrelink advised that this was due to a greater emphasis on correctly determining debts and accurately calculating debt amounts.

6.32 ANAO interviews with Centrelink staff during fieldwork indicated that, prior to the introduction of the specialist debt raising teams, a high proportion of the debts aged 56 days or older were complex debts that were being ignored by CSOs due to the amount of work involved in processing them. In addition, CSOs often incorrectly 'finalised no debt' to avoid having to raise a debt.

6.33 Over the past three years, Centrelink has reduced the average age of undetermined debts on hand. Between 2000–01 and 2002–03, the average age of undetermined debts on hand reduced from 137 days to 87 days. This downward trend reflects the introduction of the Debt Servicing Strategy.

6.34 However, there were problems with substantial backlogs of debt shells in some Areas, especially during 2001. These backlogs were part of the reason

for forming the Specialist Raising Teams. The ANAO found that these backlogs had been reduced, with all Areas demonstrating relatively low levels of debt shells over the 56-day benchmark.

Accuracy of debt raising in the network

6.35 Accuracy in debt raising is important as it not only ensures the customer receives their correct entitlement, but also improves efficiency as it reduces re-work and appeals based on the value of the debt.

6.36 Centrelink, presently, has no specific indicator relating to the accuracy of debt raising within the network. The only measurement of accuracy within the network is derived from Centrelink's online quality assurance tool Quality On-Line (QOL), which is discussed later in this chapter. QOL statistics are compared against the BPA benchmark, requiring 95 per cent of all transactions to be accurate.

6.37 During Phase Two of the Debt Raising Project,⁸⁸ Centrelink undertook an analysis of the accuracy of debt raising. Overall, 12 682 checks were completed on debts raised by control sites, and sites trialling the various debt raising models. The checks were completed against Centrelink's Business Assurance Framework, which aims to ensure that customers receive the correct payment on the correct date.

6.38 Centrelink's analysis of correctness demonstrated that trial sites achieved an accuracy rate of 95.7 per cent, compared to the control site's 82.5 per cent. In the sites trialling the two debt raising models eventually adopted by Centrelink, models 3 and 4, the accuracy rate was 93.1 per cent and 95.1 per cent respectively. The project concluded, taking into account the limitations of the analysis, that a higher level of quality was found in the trial sites, where the focus was primarily on processing debt activities, than in the control sites.

6.39 However, Centrelink has been unable to provide the ANAO with sufficient information to verify the success of the debt raising model in improving the accuracy in determining and calculating customer debts. Centrelink advised that the Post Implementation Review of the debt restructuring exercise is expected to provide this information and analysis. The Post Implementation review commenced in June 2004.

⁸⁸ Centrelink, 2002, *Debt Raising Project Phase Two, Evaluation Report Part 1*, op. cit., p. 39.

Opportunities for improving consistency of specialist debt raising processes

6.40 During fieldwork visits to the Centrelink network, the ANAO identified that some Areas had taken steps to further improve the consistency of the debt raising process. In particular, the ANAO noted that:

- two Areas had considerably improved the quality of documentation relating to debts, and;
- several Areas had made improvements to the level of customer service offered to customers incurring larger debts.

Quality of documentation provided to specialist debt raising teams

6.41 As mentioned earlier, when a CSO has completed processing a customer's updated information, the CSO transfers the debt shell to the relevant specialist debt raising team through Centrelink's online workflow management system.

6.42 During fieldwork, the ANAO noted that some Areas had implemented additional practices in this process to improve quality. In Areas South Australia and Western Australia, when CSOs forwarded debt shells to the Debt Raising Teams they were also required to forward paper files. Area Western Australia also required CSOs to fill in a checklist to ensure they completed all relevant processes. These procedures enabled the Specialist Debt Raising Officer to be fully informed of all issues relating to the debt. As well, Centrelink advised that a script is currently under development for the purpose of transferring undetermined debts to the debt raising team. The pilot of the script will commence shortly.

6.43 A second additional practice in the debt shell referral process, also unique to Areas South Australia and Western Australia, was a feedback sheet which allowed the Specialist Debt Raising Officer to provide feedback to CSOs who were referring debt shells of poor quality. The completed feedback sheet was referred back to the CSO's Team Leader or CSC Manager. Team Leaders in these Areas believed that this assisted in the identification of training needs and reduced the amount of debt related work that should not have been passed on to the Specialist Debt Raising Teams.

6.44 The ANAO suggests that the Post Implementation Review of the debt restructuring initiative investigate these variations to procedures, to determine if they are superior to present arrangements, and more cost-effectively provide all necessary information to Specialist Debt Raising Officers.

Informing customers about impending debts

6.45 Once a CSO in a Specialist Debt Raising Team has completed processing the activity, which potentially creates a debt against the customer,

the customer should be advised that there is a possibility he or she has incurred a debt.

6.46 On completion of the calculation which potentially creates a debt against the customer, the Specialist Debt Raising Officer has two possible courses of action; action the debt, or waive the debt based on Social Security Law provisions. If the debt is actioned by the officer, a letter is automatically generated and despatched to the customer who has incurred the debt.

6.47 In March 2001, Centrelink engaged a consultancy to undertake market research on its behalf into customer attitudes towards the debt advice letter. The feedback was generally positive with the exception of a few issues. However, the ANAO notes these issues still have not been addressed.

6.48 Of main interest to the ANAO is the question of who to contact if the customer disagrees with the decision to raise the debt. Presently, there is no phone number provided in this section, and there is no cross-referencing to the contact number on the front of the form relating to inability to pay. Centrelink has advised that this inclusion is not possible as the current printing technologies do not allow customisation on the back of the account payable form. The ANAO considers that Centrelink should include a phone number in the section of the form that informs the customer of their rights to have a decision reviewed.

6.49 During fieldwork, the ANAO noted a practice in a number of Areas, whereby customers who had incurred larger debts, usually in excess of \$1000, were contacted by phone by the Debt Raising Officer, prior to the letter being despatched. This practice not only improved customer service, but also mitigated the shock customers might feel at receiving a letter detailing that they owed a large amount of money. It also allowed the customer to discuss immediately with the appropriate Centrelink Officer possible courses of action they could take in relation to the debt.

6.50 The ANAO considers that the practice of phoning customers when a large debt has been raised against them, ahead of receiving a letter advising them of this, is a better practice that would be valuable to implement across the network.

Further improving Quality On-Line (QOL)

6.51 Currently, the QOL process is used by Centrelink to provide assurance on the quality of CSO's work, including debts raised. Experienced staff have five per cent of their work randomly selected for checking by a QOL checking officer, who uses the QOL tool to check the correctness of procedures undertaken by the CSO when completing the debt raising task. For inexperienced staff, 100 per cent of their work is QOL checked.

6.52 Over the past two years, the Debt Services Team within Centrelink, has been undertaking an analysis of QOL, examining its effectiveness as a tool for ensuring the quality of debts raised. This analysis found that there is little difference between the quality of debts that have been subject to QOL checking and those that have not. The Debt Services Team's report on this analysis offered a number of reasons for QOL's apparent ineffectiveness in assuring the quality of debt raising, including that:

- the focus of QOL checking does not align to the specific needs of debt activity checking. QOL is specifically designed to ensure the correctness of customer payment, not the correctness of debts raised against a customer;
- QOL checkers do not meet the standards desired. In particular, for debt raising it is difficult to obtain staff with the relevant skills and knowledge of payments. The Debt Services Team indicated that this will continue to be the case while there is insufficient suitable staff to draw on, and insufficient funds to provide the necessary training and support to QOL checking officers;
- there is limited flexibility in reporting or analysing information. Currently QOL does not allow for reporting against specific issues it has measured. Rather, it gives a general report on whether a transaction is correct or incorrect; and
- access to relevant mainframe screens is limited, thus limiting the QOL checkers ability to cross-check the debt being raised against relevant information.⁸⁹

6.53 Assuring the quality of work undertaken by CSOs is an important function, whether this work relates to ensuring payment accuracy, or relates to other functions such as debt raising. QOL, in its current form is biased towards being used as a tool to ensure payment correctness and apparently does not allow for a transposition to other important functions, such as debt raising, which also require quality assurance. The ANAO considers that the future updates of QOL should aim to make this tool more universal in its application, so that it can be applied effectively to a broader range of functions. As well, the appropriate resources should be made available to business units to ensure that staff can be effectively trained in applying QOL.

⁸⁹ Centrelink, Debt Services Team, *A DST Perspective on QOL Issues*, February 2003.

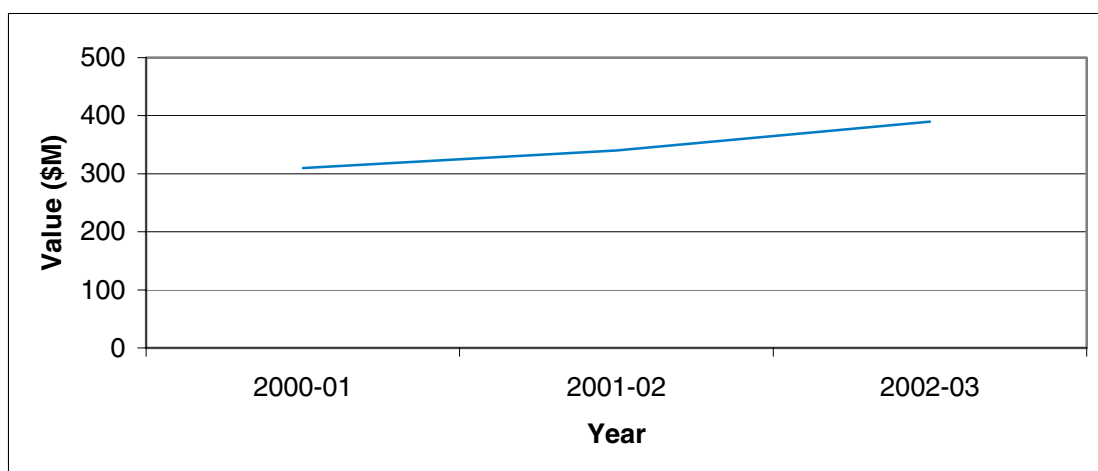
Compliance debt raising

6.54 Debts arising as a result of compliance activity are not raised by the Specialist Debt Raising Teams. Rather, these debts are processed and raised by the Compliance Officers, who have investigated and identified the debt(s).

6.55 In the financial year 2002–03, compliance-related debt accounted for 42 per cent of total debts raised. The value of compliance debts has been increasing over the past few years, mainly due to an improvement in targeting compliance activity (see Chapter 5). Figure 6.4 illustrates the value of compliance debt raised between 2000–01 and 2002–03.

Figure 6.4

Value of compliance debts raised, 2000–01 to 2002–03



Source: Centrelink, *Analysis of Debt in Centrelink*, Paper 1, August 2003.

6.56 The ANAO interviewed a number of Compliance Officers from Area Compliance Teams and found that Compliance Teams had not placed the same amount of emphasis on, or devoted the same amount of training and resources to, improving the quality and accuracy of debt raising that the Specialist Debt Raising Teams had.

Accuracy of debts raised by compliance teams

6.57 When asked about this issue, most Compliance Officers the ANAO spoke to advised that, unlike non-compliance benchmark debt, there has never been a significant problem with the quality of compliance debt raised. These Compliance Officers considered that their experience and subsequent knowledge of raising debt was sufficiently high and there was no need to address quality, in the same way that it was being addressed elsewhere in the network.

6.58 The ANAO attempted to test this view, by examining available data on the accuracy of debt raising by Compliance Teams. However, the only available data was a review of ABSTUDY payments conducted by Centrelink in October 2002, which, among other things, examined the accuracy of raising debts.

6.59 This review highlighted a serious issue relating to the accuracy of debt raising by Compliance Units. In particular, the review found that:

- 47 per cent of debts raised by compliance units had a major error and 37 per cent had minor errors; while
- in comparison, 19 per cent of debts raised by the ABSTUDY Processing Unit and 29 per cent of debts raised within CSCs were found to have major errors.

6.60 This high level of inaccuracy detected in ABSTUDY debts raised by Compliance Officers may be an indicator of similar problems in relation to other payments.

6.61 Centrelink has recently undertaken major work on restructuring the processing of non-compliance debts to better ensure the accuracy and timeliness of debt raising. Centrelink has also established Compliance Review Learning Coordinator positions in each Area. Although compliance review staff receive training in debt calculation, little specific work has been undertaken to ensure the accuracy and quality of compliance raised debts. Most Compliance Officers interviewed by the ANAO were unable to identify any recent remedial action that had been taken to improve the quality of debt raising by Compliance Officers.

Recommendation No.6

6.62 The ANAO *recommends* that Centrelink undertake a review of the accuracy of the value of debts determined and raised by its Compliance Teams. If the results of this analysis identify low rates of accuracy, immediate remedial action is advisable.

Centrelink response

6.63 Centrelink **agrees** with this recommendation. Centrelink plans to commence this review in late 2004.

Waivers

6.64 The *Social Security Act 1991* allows the Secretary of FaCS to delegate to Centrelink the power to waive debts arising from the overpayment of social security benefits and allowances where:

- the debt is solely attributable to an administrative error⁹⁰ made by the Commonwealth and the debtor received the proportion of the payment that was incorrect in good faith (s1237A(1));
- the debtor acted in good faith when underestimating the value of property that in turn generated an overpayment (s1237A(2));
- it is not cost effective for the Commonwealth to take action to recover the debt (s1237AAA(1));⁹¹
- there was an unclaimed entitlement to family payment or family allowance (s1237AAC); or
- the debtor did not knowingly make a false statement or knowingly fail to comply with the provisions of Social Security Law, and where there are special circumstances (other than financial hardship alone) that make waiver a more appropriate course of action (s1237AAD).

6.65 When analysing the issue of waivers, the ANAO looked at debt raised by both Specialist Debt Raising Teams and Compliance Teams.

Reluctance of debt raising staff to waive debts

6.66 During fieldwork, the ANAO conducted a number of interviews with Centrelink staff and external stakeholders regarding the issue of waiving debts.

6.67 All external stakeholders the ANAO interviewed held the view that Centrelink Debt Raising Officers (these officers are commonly referred to as the Original Decision-Makers or ODMs) were reluctant to waive debts at the debt raising stage. It was the external stakeholders view that, as a result, debts were raised that should have been waived.

6.68 Within Centrelink, this view was shared by the three Authorised Review Officers (AROs) interviewed by the ANAO. AROs are the next point of contact after the Original Decision-Maker for a customer wishing to dispute a

⁹⁰ This right to waiver is dependant on the debt not being raised within a period of six weeks from the first payment that caused the debt (s1237A.(1A)), or six weeks from the end of the notification period if the customer notified.

⁹¹ Centrelink automatically waives debts of less than \$50.00, as it is not cost effective to recover these debts.

debt. However, this view was rejected by virtually all Debt Raising Officers interviewed by the ANAO, who believed they waived appropriately. Given these mixed messages, and the qualitative nature of support for the view that Centrelink Original Decision-Makers (ODMs) were reluctant to waive, or at least had such a disposition in some Areas, the ANAO examined available quantitative data. The most relevant data involved the number of appeals to, and subsequent waivers by AROs, and the Social Security Appeals Tribunal (SSAT). Figure 6.5 illustrates the results of appeals to AROs and the SSAT between 2000–01 and 2002–03 regarding debts.

Figure 6.5

Appeals to Authorised Review Officers and the Social Security Appeals Tribunal regarding debts, 2000–01 to 2002–03

Year	Lodgements (number)	Appeals related to debts (%)	Affirmed (%)	Set Aside/ Varied (%)	Withdrawn/ Dismissed (%)
AROs					
2000–01	10 837	27	60	38	2
2001–02	13 509	36	61	37	2
2002–03	18 662	47	67	31	2
SSAT					
2000–01	2 433	29	52	41	7
2001–02	2 964	36	54	37	9
2002–03	4 179	46	60	33	7

Source: Centrelink, *Review and Appeals Statistics, Lodgements and Outcomes*.

6.69 In June 2003, Centrelink summarised its review and appeals statistics and identified appeals relating to debt as ‘a high workload area, with high overturn rates continuing....some Areas have quite high overturn rates at ODM and ARO level, which indicates reasonable opportunity to improve internal decision making’.⁹²

6.70 The limitations of the above data should be noted. The decisions to overturn by AROs and the SSAT do not specifically relate to issues involving waivers, and therefore this data is inconclusive. However, the ANAO’s discussions with AROs and external stakeholders indicated that a considerable proportion of decisions being overturned do relate to debts that should have been waived, but weren’t.

⁹² Centrelink Service Recovery Team, Data Analysis and Reporting, *Review and Appeals Statistics, Lodgement and Outcomes, 2002/2003 Financial Year, ARO & SSAT*.

6.71 It should be noted that much of this opinion is based on the previous debt raising structure and would not wholly take into account the performance of the new Specialised Debt Raising Teams. As well, the review and appeals statistics relate to periods prior to implementation of the Specialised Debt Raising Teams. Nevertheless, the ANAO considers that there would be value in Centrelink monitoring debt waivers, to ensure that the new Specialised Debt Raising Teams are improving the application of waivers, and that their role is not restricted solely to raising debts, at the expense of making informed decisions on whether or not a debt should be raised at all.

Reasons for reluctance of debt raising staff to waive debts

6.72 During interviews conducted as part of the fieldwork for this audit, AROs advised the ANAO that the main reasons why Centrelink staff were not waiving debts, when appropriate, was:

- a lack of confidence in their ability to interpret what constituted a waivable debt, particularly relating to determining 'good faith' and 'special circumstances'; and
- a belief that the downstream appeal processes would correct any incorrect decision not to waive.

6.73 These views were reinforced to the ANAO by virtually all external stakeholders interviewed by the ANAO, and supported by the results of the ANAO's interviews with Centrelink debt raising staff. These interviews indicated that few of these staff had received sufficient specific training about debt waivers and often relied for guidance on experience gained in previous positions in Centrelink, or online resources such as e-reference.

Good faith

6.74 As described in paragraph 6.64, Centrelink is required to waive debts under certain circumstances, if payments were received in 'good faith'. Centrelink's definition of good faith provided to their staff is that 'the customer had no reason to believe they were not receiving the correct payment and that it had been paid at the correct rate'.⁹³

6.75 The main problem for staff is how to ascertain whether or not customers should have known they were being overpaid. This is subjective by nature and often relies on the interpretation, judgement and discretion of the Centrelink officer.

⁹³ Centrelink intranet, Debts and Compensation, Administrative Error Waivers <<http://centrenet/corp/debtcomp/107:12410>>.

6.76 Centrelink makes a number of resources available to its staff to assist them when assessing if the customer received an overpayment in good faith. These resources include a section in the Debt Training Manual, various memoranda, the Guide to the Social Security Law and legal cases from the Administrative Appeals Tribunal and the Federal Court. As well, Centrelink's online reference tool, e-reference, offers an explicit definition of what constitutes good faith.

6.77 In FaCS' Guide to the Social Security Law,⁹⁴ in deciding the issue of good faith, staff are asked to consider a range of circumstances including the following:

- the information provided to the customer;
- the information provided by the customer;
- the customer's regular pattern of payment;
- the amount of excess payment; and
- the period of time over which the incorrect payment was made.

6.78 Centrelink provides examples to its staff of the application of the concept of good faith to customers,⁹⁵ and uses delegations to limit the maximum value of waiver allowed according to staff classifications. Staff are also encouraged to discuss the issue with fellow CSOs, team leaders and AROs, in order to draw on the experiences of others to gain a better understanding of good faith when considering cases.

6.79 Despite Centrelink guidance, ANAO interviews with Specialist Debt Raising Officers indicated an inconsistent application across Areas of what constituted good faith. Two of the seven Areas visited during the audit placed a greater onus on the customer to understand their payments than others. Staff in these Areas were less likely to waive debts based on the principle of good faith than others.

6.80 During these interviews, Centrelink Debt Raising Officers in five of the seven Areas visited by the ANAO, commented that it is difficult to consistently determine good faith, due to the broadness of its definition. They added that Social Security Law, while prescribing the right to waive a debt if the overpayment was received in good faith, does not actually provide a definition of what constitutes good faith.

⁹⁴ Centrelink intranet, <<http://centrenet/corp/gdessact/ssguide>>.

⁹⁵ Such as on the Centrelink intranet: Debts and Compensation, Administrative Error Waivers <<http://centrenet/corp/debtcomp/10712415>>.

6.81 The ANAO recognises that it is unrealistic to have complete consistency on the issue of applying waivers based on the provisions of what constitutes good faith. However, the ANAO considers that the degree and consistency of the application of waivers can be improved at the Original Decision-Maker level. For example, by providing training to CSOs entering debt raising teams on waiving debts, especially how and when to apply these waivers. As well, when a CSO believes there maybe grounds for waiver, but is unsure, procedures to ensure that such a case is transferred to a supervisor or team leader for further assessment would be preferable to relying on the downstream appeals process to correct any error. In this regard, the ANAO notes that an update to e-reference, released in April 2004, includes a reference that encourages staff to contact the national Helpdesk to discuss whether waiver is appropriate.

Special circumstances

6.82 The issue of special circumstances, and its inconsistent application, were also raised by a number of external stakeholders interviewed by the ANAO. These stakeholders identified instances where debts had been raised against customers who Centrelink knew lived in difficult circumstances, such as being homeless, living in violent situations, addicted to narcotics, or lacking the mental capacity to understand their obligations to Centrelink.

6.83 In interviews with the ANAO, Centrelink staff demonstrated a consistent understanding of what constituted special circumstances, and the situations in which a debt would be waived on this basis.

6.84 However, based on evidence obtained from interviews conducted with virtually all external stakeholders, the ANAO considers that, while there might be a consistent understanding of what constitutes special circumstances, the application of this provision to waive debts does not appear to be applied consistently across the network. Consequently, a customer's outcome can depend more on the Area where they live, and the officer they deal with, as opposed to the guidelines and legislation governing their rights to have a debt waived on the basis of receiving an overpayment subject to special circumstances.

6.85 As with the issue of good faith, the ANAO considers that training of CSOs on this issue, and the introduction of procedures involving the referral to more senior staff of possible cases of special circumstances, where the CSO is unsure whether to waive, have the potential to increase the consistency of decision-making in this area.

Reliance on downstream appeal processes

6.86 When a customer disputes a debt, that person has available to them a number of downstream appeals channels. These channels include, in the following order:

- the Original Decision-Maker;
- Authorised Review Officer;
- Social Security Appeals Tribunal; and
- the Administrative Appeals Tribunal.

6.87 Centrelink staff interviewed by the ANAO demonstrated a strong belief that the downstream appeals process was an effective tool of review for customers with debts, and was easily accessible by customers. The ANAO, therefore, explored whether the downstream appeals processes were effective and whether or not Centrelink customers used these processes. This analysis was mainly based on interviews with external stakeholders who possessed a working knowledge of the appeals process.

6.88 From these interviews, the ANAO found that many customers are able to understand the appeals process and have the necessary motivation to access it. However, customers who don't meet these criteria tend to be those already existing in the worst circumstances.

6.89 Any reluctance by Centrelink Specialist Debt Raising Officers to waive debts, on the basis that the downstream appeal procedures will deal with issues relating to good faith and special circumstances, is inappropriate. This assumes that all customers have the same ability to understand their rights, and have the same capacity and motivation to question a decision to raise a debt against them. Interviews with external stakeholders identified that it is often the customers in the worst possible circumstances who are those least able to appeal against debts. In many cases, the debt-raising officer is well aware of these customers' circumstances.

6.90 The ANAO regards it as important that, where Specialist Debt Raising Officers are aware of grounds relating to a customer's special circumstances, or there are grounds for waiver on the basis that the customer received these payments in good faith, these officers exercise their discretion to waive debts, and not rely on the downstream appeals process to correct their judgements.

Recommendation No.7

6.91 The ANAO *recommends* that Centrelink analyse the appropriateness of applying debt waivers throughout its network, especially at the Original Decision-Maker level in Specialist Debt Raising Teams. If the results of this analysis identify low rates of appropriateness or consistency, immediate remedial action is advisable.

Centrelink response

6.92 Centrelink **agrees** with this recommendation. Centrelink plans to undertake a review of the application of debt waivers in the Network during 2004–05.

Conclusion

6.93 The restructuring of the non-compliance debt raising process within Centrelink has produced clear benefits in terms of the number of debts being raised, the value of these debts, and their quality. The recent restructuring, combined with the review of debt processing that has been carried out over the past three years, has also produced a marked difference in the attitude of Centrelink staff within the network to processing debt, with accurate and timely raising of debt now regarded as an important part of processing customers' details.

6.94 While Centrelink has undertaken major restructuring of its non-compliance debt raising functions, there has been no accompanying reform of its compliance-based debt raising processes. This is despite compliance debt representing a significant proportion of benchmark debt, and the adverse results of Centrelink's own October 2002 review of debts raised by Compliance Officers for ABSTUDY payments, which found high rates of error for compliance debts. The ANAO considers that Centrelink should review the accuracy of debts determined and raised by Compliance Teams, and take any required remedial action.

6.95 The ANAO found Centrelink's application of waivers, on the basis that payments were received in good faith, or that there were exceptional circumstances, to be inconsistent across the network. In some Areas, there appeared to be reluctance at the Original Decision-Maker level to waive debts, with the exception of the most obvious of cases. To improve the consistency of debt waivers, the ANAO has recommended that Centrelink analyse the accuracy in applying debt waivers throughout its network, and take any required remedial action.

7. Debt Recovery

This chapter reviews Centrelink's structure, processes and performance in debt recovery.

Introduction

7.1 Sections 1222A to 1228 of the *Social Security Act 1991* allow Centrelink to recover social security payments from customers who were not entitled to receive them.

7.2 The aim of Centrelink's recovery operations is to recover the maximum amount of monies in the minimum amount of time, in accordance with relevant legislation, and without placing the customer in real financial hardship.⁹⁶ It also aims for efficiency, seeking to achieve these goals using the minimum resources, including any subsequent application of resources for the recovery of money.

7.3 The ANAO sought to examine the effectiveness of Centrelink's recovery operations. Specifically, the ANAO examined:

- the performance of Centrelink in recovering money owed to it by customers;
- the structure and processes of Centrelink's recovery operations;
- contractual arrangements with Centrelink's mercantile agent, Dun and Bradstreet Limited; and
- the quality of customer service provided by the Debt Recovery Teams in Centrelink.

Background

Main methods used by Centrelink to recover customer debts

7.4 Once a customer is advised that he/she has incurred a debt, the person has 28 days to respond to Centrelink and put in place arrangements for the recovery of that debt.

7.5 Current Centrelink customers who have incurred a debt, generally repay it via automated withholdings, whereby a proportion of the customer's current benefit is withheld at each payment cycle until the debt is repaid. For current customers who fail to respond to Centrelink within the 28-day period, an automated withholding arrangement is activated on their social security

⁹⁶ Centrelink document 107.11210, *Roles and quality service standards for Centrelink recovery staff*.

benefit at a default rate which varies according to payment type and any other income. Customers can seek to have the default rate changed if it causes them hardship or if they prefer to pay more.⁹⁷

7.6 If the customer is no longer a current Centrelink customer, a combination of automated and manual process occur to secure recovery. Manual processes are undertaken by the respective Area Recovery Team.

7.7 In December 2000, Centrelink entered into a contract with Dun & Bradstreet, a Melbourne based mercantile recovery agent. Under this contract, Centrelink automatically passes on to Dun & Bradstreet debts:

- of less than \$500, which are at least 64 days old and where there is no repayment arrangement in place;
- over \$500, where no repayment has been received within the last three months and the following periods of time have expired;
 - debts between \$500 and \$4999: 119 days after the debt was raised;
 - debts between \$5000 and \$10 000: 210 days after the debt was raised; and
 - debts over \$10 000: 393 days after the debt was raised; and
- where Centrelink staff decide that it is no longer cost effective for Centrelink to pursue recovery (including because the customer's whereabouts is unknown).

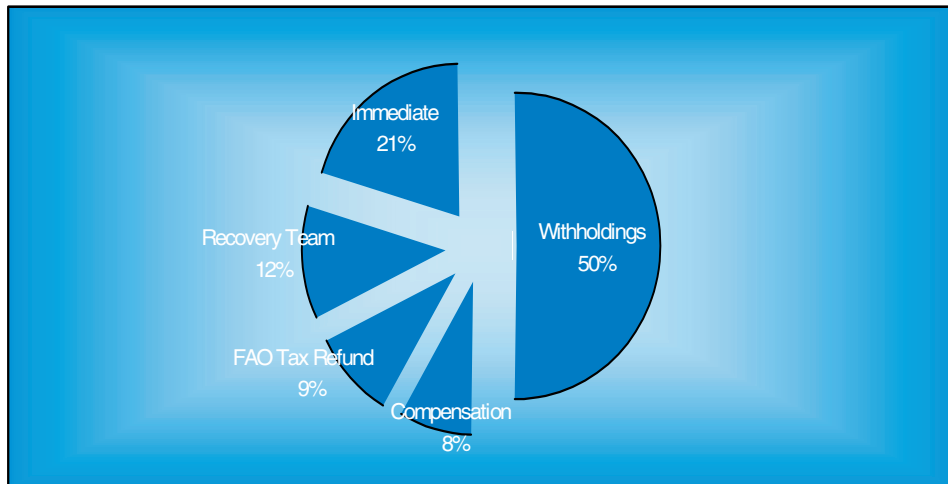
7.8 The mercantile agent has a period of four months in which to secure a payment arrangement before the debt is returned to Centrelink.

Use of main debt recovery methods

7.9 During the financial year 2002–03, Centrelink recovered \$696 million in debts from its customers. This represented an increase of \$47 million from 2000–01.

7.10 Figure 7.1 outlines Centrelink's main sources of recovered debts in 2002–03. It indicates that Centrelink recovers most customer debts through automated withholding from social security benefits. During 2002–03, automated withholdings accounted for 50 per cent of the total number of debts recovered by Centrelink, with total withholdings amounting to \$577 million.

⁹⁷ Section 1230C(1)(a) *Social Security Act 1991* (Cth). However, the customer can renegotiate this rate with Centrelink to suit their circumstances.

Figure 7.1**Centrelink sources of debt recovery, 2002–03^a**

Notes: (a) Refers to the percentage of the total number of customer debts recovered in a particular way. Includes recovery by the mercantile agent.

Source: Data provided by Centrelink.

7.11 Of the total debt recovered by Centrelink, customers repaid 21 per cent immediately following receipt of an account payable or first reminder letter, with no further action by Centrelink. The remaining recoveries in the chart reflect both voluntary, and enforced, repayment occurring after some action by Centrelink.

7.12 Over the same period, Centrelink Debt Recovery Teams recovered \$140 million, representing 12 per cent of the total number of debts recovered. This included recovery by the mercantile agent, Dun & Bradstreet.

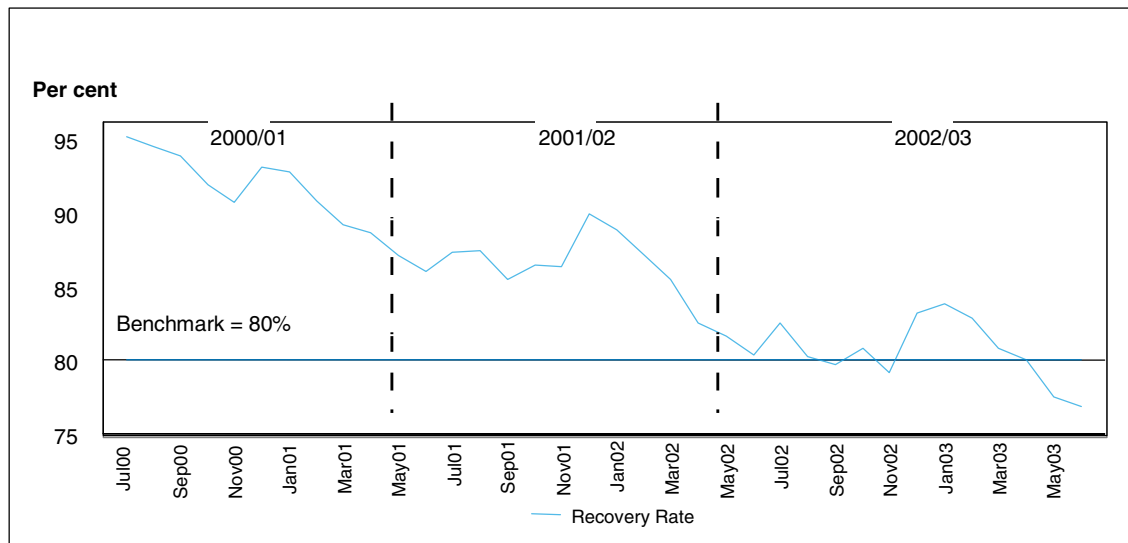
Centrelink performance in recovering debts

7.13 As discussed in Chapter 3, at the time of drafting this report in May 2004, Centrelink had one external key performance indicator (KPI) and four main internal KPIs that measure the performance of debt recovery activities.

7.14 Figure 7.2 details Centrelink's recovery performance against its external KPI, which measures the value of debts recovered in a period as a percentage of the value of debts raised.

Figure 7.2

Centrelink's recovery rate performance^a, July 2000 to June 2003



Note: (a) Dollars recovered as a percentage of dollars raised per month. Includes Family Assistance Office debt.

Source: Centrelink 2003, *Analysis of Customer Debt in Centrelink*, Paper 1, August.

7.15 While Centrelink has been increasing the value of debt recovered, Figure 7.2 shows that its performance against the external recovery main KPI has been declining. Indeed, from April 2003, recovery performance fell below the target rate of recovering 80 per cent of the value of debts raised. This decline in performance is largely due to:

- an increase in the total value of debts raised;
- the effect of the automatic default withholding rate specified by the *Social Security Act 1991*—whereby many debts are withheld at the rate of 14 per cent of current benefits. In this circumstance debt is not reduced quickly, which exacerbates the impact of the rise in the total value of new debts raised; and
- the recovery data not adjusting the value of debts raised, when the original amount of debts are reduced following a customer request for a review of the decision to raise a debt.

7.16 These shortcomings in the construction of the external KPI make it difficult to assess Centrelink's overall debt recovery performance. However,

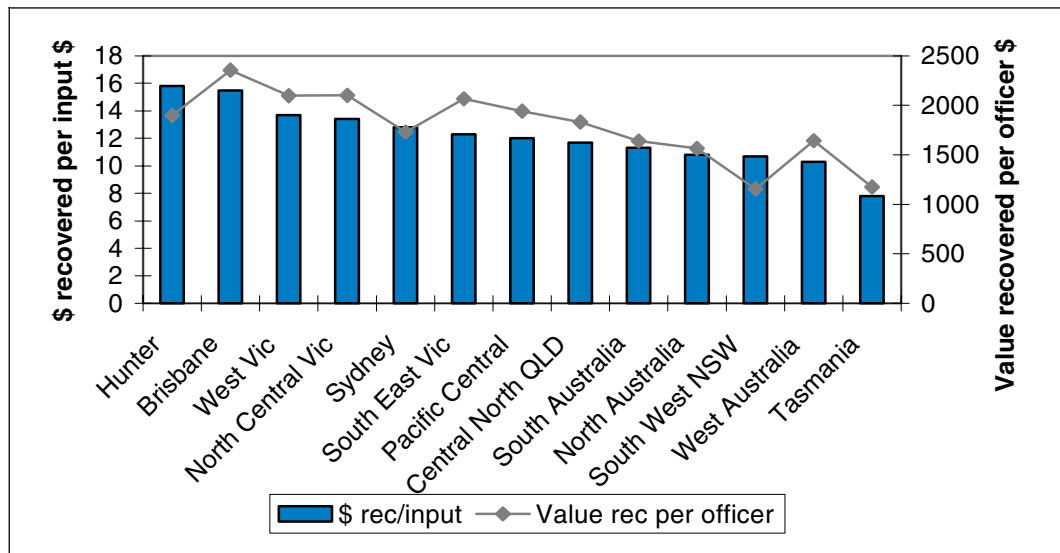
the variation in performance between Areas⁹⁸ in the recovery of debts, indicates considerable scope for overall improvement in Centrelink's debt recovery performance.

Performance of Centrelink Areas in recovering debts

7.17 Figure 7.3 sets out the variations in debt recovery performance of Centrelink's 13 Area Recovery Teams. It outlines the value recovered compared to input cost, as well as the average value of debt recovered by each Recovery Officer per day. The figure shows, in 2002–03, that the highest performing Area in terms of dollars recovered per dollar input had approximately double the performance of the lowest performing Area.

Figure 7.3

Debt recovery performance by Area Recovery Team: value of debt recovered per input dollar; and value recovered per Recovery Officer per Area, 2002–03



Source: Centrelink, 2 October 2003, Debt Recovery Strategic Issues, A paper for presentation to the Performance Manager's Meeting.

7.18 While there are mitigating factors for these differences, and for other differences in measured performance between Areas, the ANAO considers that there are also real differences in debt recovery performance. This assessment is based largely on fieldwork conducted in seven Areas, which examined the effectiveness and efficiency of recovery structures and processes used by the various Area Recovery Teams in those Areas.

⁹⁸ Centrelink currently has one Debt Recovery Team in each of 13 of its 15 Areas. The two remaining Areas have recovery operations completed by Recovery Teams located in the adjoining Areas.

7.19 On the basis of observations from these visits, the ANAO considers that Centrelink could improve overall performance in debt recovery, and reduce the variation in performance between Areas, by:

- adopting relevant industry better practice structures and technologies (as implemented by Centrelink’s mercantile agent), including accessing the potential economies of scale available by reducing the number of debt recovery units;
- implementing effective debt recovery structures in all Areas that have a recovery function, thereby reducing the variation in the type of current structures (including introducing consistent staffing configurations and improving access to telephone technology and other recovery tools provided);
- standardising debt recovery processes between Areas, by improving guidance at a national level and providing more consistent staff training; and
- addressing the quality of customer service in debt management, including by measuring it.

7.20 Importantly, Centrelink has also recognised most of these shortcomings and is in the process of considering proposals for major reforms of its debt recovery processes to remedy them (see paragraphs 7.76 to 7.80).

Adopting industry better practice

Centrelink contract with its mercantile agent

7.21 The ANAO sought to assess the effectiveness of Centrelink’s contract with Dun & Bradstreet, as outlined in paragraph 7.7.⁹⁹

7.22 This assessment included observing the relative efficiency of Dun & Bradstreet’s operations. Complementing this analysis, the ANAO also sought to determine the extent of potential improvements in Centrelink’s recovery operations to be gained by adopting relevant industry better practices, as evidenced at Dun & Bradstreet.

7.23 A final component of this analysis was to gain assurance from both Centrelink and Dun & Bradstreet that the adverse findings from a recent internal audit¹⁰⁰ had been rectified.

⁹⁹ Dun & Bradstreet does not ‘buy’ the debts from Centrelink, which is common practice in the debt recovery industry. Rather, Dun & Bradstreet acts as an outsourced recovery function of Centrelink, and acts within the relevant Commonwealth legislation that governs Centrelink’s operational activities, as well as the provisions of the *Trade Practices Act 1974* that govern the collection of debt by mercantile agents.

¹⁰⁰ Centrelink Internal Audit, CA02039, April 2003, *Debt Collection Agencies Audit Report*.

7.24 In September 2003, the ANAO visited Dun & Bradstreet's Melbourne operations as part of this analysis.

Performance of the mercantile agent's operations and contract with Centrelink

7.25 The ANAO visit to Dun & Bradstreet's Melbourne operations found that Dun & Bradstreet's operations were of a high standard, and technologically advanced. Dun & Bradstreet possesses a superior recovery infrastructure to that of Centrelink, which allows it to more effectively recover those debts passed on to it by Centrelink.

7.26 In particular, for lower to medium value debts (up to \$1500), Dun & Bradstreet's use of online technology, such as investigative tools to track down wayward debtors, automated diallers, and scriptors, which aimed to achieve a consistency of recovery procedure and customer service, were found to be significantly more efficient than Centrelink's recovery operations.

7.27 Dun & Bradstreet staff approached the negotiation with debtors with a consistent rehearsed style, which aimed for specific outcomes, thus supporting a homogenous level of service to customers. The aims of Dun & Bradstreet's staff were similar to those of Centrelink's recovery staff, to first establish whether a customer could pay the debt in full, and, if not, establish an instalment arrangement. However, Dun & Bradstreet's processes were completed against an online scriptor and by staff members who received uniform training packages and quality assessment, specifically in phone based recovery. The ANAO observed that Dun & Bradstreet's recovery staff handle many more recovery cases per day than do Centrelink recovery staff.

7.28 The ANAO found that the commercial arrangement between Dun & Bradstreet and Centrelink offered an efficient means of recovering what is described as 'delinquent' accounts with a value of less than \$500. The ANAO notes that increasing the referral level for delinquent accounts to a value of less than \$1500, which is being proposed as part of Centrelink's recovery reform, would seem to offer further value to Centrelink.

Opportunities for Centrelink to adopt the mercantile agent's better practices

7.29 Under the contract between Centrelink and Dun & Bradstreet, Centrelink is able to access and implement the better practices of the mercantile agent.

7.30 During the ANAO fieldwork with Centrelink Debt Recovery Teams, no evidence was presented to the ANAO of any mercantile agent better practices being implemented by Centrelink. This may have been partly because Centrelink recovery staff whom the ANAO interviewed were not aware that

some recent improvements had stemmed, at least in part, from adopting better practices observed at Dun & Bradstreet. In this regard, Centrelink subsequently advised the ANAO that it has implemented a number of Dun & Bradstreet's better practices including techniques for approaching and communicating with the customer, automatic recovery paths, and a greater reliance on the telephone as the primary method of contact for overdue accounts.

7.31 Nevertheless, an April 2003 audit report by Centrelink Internal Audit identified that Centrelink had not implemented many of Dun & Bradstreet's better practices.¹⁰¹ Centrelink's response to this internal audit finding was that it would not be cost effective, under its existing recovery structure, to adopt some of the better practice technologies used by Dun & Bradstreet.

7.32 Centrelink has recently proposed a restructure of its debt operations, as discussed further in paragraphs 7.76 to 7.80, including increasing the level of debt referred to Dun and Bradstreet, to ensure debts of appropriate level (up to \$1500) are managed with access to appropriate technology. The ANAO notes that the proposed centralisation of recovery options would also increase the viability for Centrelink to implement better practice recovery technology. The ANAO also notes that improved use of technology is one focus of the proposed reform, for example introduction of CTI (Computer Telephony Integration), including 'screen pop' to the recovery segment.

7.33 The ANAO suggests that, in implementing proposed reforms to debt recovery structures and processes, Centrelink increase access to technology through further outsourcing of appropriate work to one or more mercantile agents, and introduce improved technology, training and other tools internally.

Economies of scale in debt recovery

7.34 Most financial services institutions and mercantile agents have centralised debt recovery functions. Apart from the greater consistency in customer service and outcomes this creates, it allows these institutions to achieve available economies of scale. In short, they recover more money for less input costs.

7.35 Centrelink's present debt recovery structure does not allow it to achieve these efficiencies. Compared to the financial services sector, its devolved Area recovery structure is unique. This structure not only mitigates against achieving consistency in processes and outcomes, it also prevents Centrelink from achieving the efficiencies that a centralised recovery structure can attain.

¹⁰¹ *ibid.*, p. 7.

Centrelink internal audit of adequacy of debt recovery contract with the mercantile agent

7.36 During early 2003, Centrelink Internal Audit undertook an audit of Dun & Bradstreet's performance and compliance against its contract with Centrelink. This audit produced a number of findings relating to both Dun & Bradstreet's and Centrelink's performance against the contract. These findings, and the actions taken by the two parties are identified in Figure 7.4.

Figure 7.4

Centrelink and Dun & Bradstreet's actions in addressing Centrelink Internal Audit's findings

Internal Audit Findings	Centrelink and Dun & Bradstreet Actions
That there was no evidence of prior written approval for the engagement of subcontractors involved in delivering services under the Centrelink contract.	<p>Centrelink and Dun & Bradstreet agreed that the definition of the contractors for whom approval is required is any contractor with whom Dun & Bradstreet has a contractual arrangement where, in the course of that arrangement, the contractor comes into contact with Centrelink information.</p> <p>Dun & Bradstreet to provide an updated list of current contractors in conjunction with their quarterly report. Where a contractor changes or a new contractor is appointed, this change is to be approved in writing by the National Manager, Customer Support, Service Integration Shop, before the contractor has access to any Centrelink information.</p>
Not all contract personnel had signed a deed of confidentiality as required by the contract.	<p>Centrelink advised Dun & Bradstreet that where personnel of a contractor have direct access to Centrelink information (that is, their duties require them to see Centrelink information), those personnel will be required to sign an individual deed of confidentiality. Where those personnel have indirect access (for example, their duties require them to support systems on which Centrelink information is held, but not to access that information directly), a deed signed by the contractor will suffice.</p> <p>Dun & Bradstreet have had all relevant contract staff sign a deed of confidentiality and provides Centrelink with assurance in each quarterly report that these requirements have been met.</p>
Dun & Bradstreet staff had not been trained in privacy legislation.	Centrelink and Dun & Bradstreet stated that the finding that staff have not been trained in Privacy requirements is inconsistent with the Auditor's observations of staff behaviour and Dun & Bradstreet's advice that training occurs at point of induction.
There was no formal procedure in place for collating or reporting information about complaints received and filtering this for referral to Centrelink.	Centrelink and Dun & Bradstreet agreed that, where a customer asks to speak to a supervisor or Team Leader or lodges a written complaint, which will be considered by Dun & Bradstreet to be a complaint, Dun & Bradstreet are to report such matters to Centrelink via a database mailed monthly and summarized in future quarterly reports. Serious issues to be reported to Centrelink within 12 hours.

Source: Information provided by Centrelink, and ANAO fieldwork.

7.37 The ANAO considers that Centrelink and Dun & Bradstreet have made reasonable progress towards addressing the adverse findings of the Internal Audit.

Implementing effective debt recovery structures in all relevant Areas

Area Recovery Team structures and staffing

7.38 Centrelink regards the recovery function as an Area-based function. As such, Areas have considerable discretion to decide the nature of their recovery operations, albeit within guidelines published in Centrelink's e-reference suite. The guidelines are designed to operationalise Centrelink's general requirement for staff to:

recover money owing to the Commonwealth as quickly as possible without causing real financial hardship to customers while providing excellence in customer service and professionally representing the interests of the applicable client Departments.¹⁰²

7.39 These guidelines also require Centrelink staff to deliver this service accurately while providing a high level of customer service. The operational implementation of these guidelines is discussed in this section and subsequent sections of this chapter.

7.40 The ANAO found that Area Based Recovery Teams had not adopted common structures. Each of the seven Areas visited by the ANAO had adopted a different internal team structure, and had assigned different levels of resources to these teams.

7.41 With respect to internal team structures, some Areas adopted a homogenous approach structure, with Recovery Officers being assigned work on a daily basis, while other teams possessed quite rigid team separations. For example, Area Pacific Central's Recovery Team was structured against different values of debts.¹⁰³ Area Brisbane adopted a similar team structure, where a specialist section of its Recovery Team was assigned to recovering

¹⁰² Centrelink, document 107.11210, *Roles and quality service standards for Centrelink recovery staff*, op. cit.

¹⁰³ This structure allowed Area Pacific Central to assign recovery officers to specific debt values based on their skills and strengths. Officers assigned to the higher debt values tended to possess better negotiation skills and assertiveness, as these debts are recognised as being harder to recover. Officers assigned to the lower values of debt, which tend to be easier to recover, were often relatively more skilled in dealing with higher volumes of work.

larger debts.¹⁰⁴ The number of Recovery Officers assigned to Recovery Teams varied from six to 12, in the seven teams the ANAO visited.

7.42 The importance attached to the recovery function by Area management also varied significantly between Areas. For example, Area Brisbane considered the recovery function to be a high priority activity and its allocation of staff reflected this. However, other Areas regarded the recovery function as a 'back office' task, with representatives from one Area commenting that CSOs went to the Recovery Team to have a 'rest' from face-to-face customer contact.

Area Recovery Team recovery technology

7.43 The quality of infrastructure supporting Area Recovery Teams also varied significantly. Teams located in Area Tasmania's Hobart office, and Area Pacific Central's Coffs Harbour office were able to access Automated Telephone Distribution (ACD) telecommunication queue management systems.¹⁰⁵ Other Areas lacked access to such technology. These latter Areas did not have facilities to manage phone queues and support for the assignment of the appropriate staff resources to answer incoming calls.

7.44 There is no designated telephone number for Recovery Teams. Rather, customers call their local recovery office on the listed number provided on the debt advice letter. The ANAO noted that often, during peak periods, all recovery operators were on the phone. Accordingly, customers who were trying to contact the Recovery Officers were unable to get through. Centrelink, in its own analysis of recovery issues, acknowledged that the abandonment of calls by customers is an issue that needs to be addressed.¹⁰⁶ In July 2004, Centrelink advised that a national 13 phone number for customers to contact Centrelink about their debts will be implemented by 1 October 2004.

Summary of Area Recovery Team structures

7.45 The ANAO found that the variations in Area Recovery Team structures reflected an inconsistent approach to debt recovery across the network. This approach to recovery produces similar results to those discussed in Chapter 6. That is, both the customer's outcome, and the effectiveness of operations,

¹⁰⁴ Although large debts represent only 6.9 per cent of debtor customers, the value of these debts represents 46.9 per cent of Centrelink's total debt base (according to Centrelink, 19 September 2003, *Debt Recovery Strategic Issues*).

¹⁰⁵ These systems aided the teams in managing the telephone queues, and assigning staff to answer incoming calls. Thus increasing the number of customers who could be spoken to, and, subsequently, the amount of monies recovered.

¹⁰⁶ Centrelink, 20 October 2003, *Debt Recovery Strategic Reform*, A report commissioned by the Performance Managers' Meeting.

depends disproportionately on the structure and processes of the relevant Area, and the priority the Area's management places on the function.

7.46 Centrelink is a national organisation. Therefore, the quality of outcomes and customer service should not be dependent on the customer's geographical location. The recovery function, in a payment agency, is a pivotal function and should not be regarded as a low priority or back office function, and subsequently downgraded against other operational demands.

7.47 Most financial institutions have centralised, or outsourced, recovery functions, which both increase the efficiency and the standard of outcomes. Centrelink's, approach to recovery, clearly does not reflect a national approach.

Recommendation No.8

7.48 The ANAO *recommends* that, to increase the efficiency and effectiveness of debt recovery operations, as well as customer service, Centrelink:

- proceed with the planned implementation of a nationally-based approach to its recovery operations, which provides guidance to Areas about recovery structures, processes and practices; and
- upgrade the recovery infrastructure, including the telephonic and online systems, to ensure customers can readily access Recovery Officers.

Centrelink response

7.49 Centrelink **agrees** with this recommendation. As part of the debt recovery reform initiated in 2003, the following changes to Centrelink's debt recovery operations will be implemented by 1 October 2004:

- debt recovery activity will be centralised into five Areas and will operate as one virtual team;
- all five sites will take inbound enquiries;
- a national '13' phone number for customers to contact Centrelink about their debts;
- three of the sites will manage debts between \$1500 and \$5000;
- two of the sites will manage debts of \$5000 or more; and
- auto-referral to the Mercantile Agent will be increased from the current \$500 to \$1500 to optimize access to telephonic technology, such as outbound dialer.

Standardising debt recovery processes throughout Areas

7.50 As discussed earlier in this chapter, Centrelink recovers most of its customer debts through automated withholdings. Debts that cannot be recovered by an automated withholdings arrangement are referred to Centrelink's Area Recovery Teams, 28 days after the debt has been raised.

Recovery processes in Area Recovery Teams

7.51 What happens after a debt is referred to an Area Recovery Team is often influenced by individual Area practices. Centrelink provides, through its e-reference product, procedural requirements for recovery that stipulate the expected approaches and procedures for recovery. A central helpdesk service is also provided where Areas can refer enquiries about these procedures. However, in practice, Areas also employ 'local' practices that may be inconsistent with those used in other Areas and/or with the national guidelines.

7.52 Apart from the e-reference guidelines, recovery practices are at each Area's discretion, with the Recovery Manager and Business Manager usually being responsible for the operations of the Recovery Teams. This includes the implementation, operation and evaluation of quality against the above general guidelines.

7.53 In Areas where the Recovery Team was structured according to the value of debts, the debts were prioritised on the online management system by their respective value. In Areas where there was no internal team structure, the debts were often drawn, in turn, from the online management system, with no assessment or reference other than the date they were referred to the Recovery Team.

7.54 Once the Recovery Officer accesses the case from the online management system, Recovery Team action commences. This first involves trying to contact the customer by phone at their last known phone number. If this is unsuccessful, the Recovery Officer then tries to establish the customer's whereabouts, or the whereabouts of any other known relatives on the Centrelink system. As well, officers may also conduct a series of other investigations depending on the debt amount, such as investigations into the value of assets. If all these avenues are unsuccessful, the debt is eventually referred to the mercantile agent.

7.55 When contact is made with a customer, it is the duty of the Recovery Officer to negotiate an outcome. The negotiation centres on first trying to establish whether or not the customer can afford to pay the debt in full. If not, then a payment by instalments arrangement is implemented.

7.56 The ANAO found no nationally set procedure for these phone negotiations. Rather, team-based procedures were being applied by Recovery Officers when contacting debtors by phone. During the fieldwork stage of the audit, the ANAO witnessed a number of Area recovery actions and found that each officer had his/her own approach. There was no use of talk scripts or other online tools.

Skills and training of recovery staff

7.57 The ANAO found that the levels of skills of recovery staff varied significantly between Areas. For example, Area Brisbane considered that debt recovery staff needed to be highly skilled. Accordingly, this Area had recruited experienced debt recovery staff, including from private sector mercantile agencies, to recover large debts of over \$5000. However, Recovery Officers in other Areas, while possessing considerable experience in recovery, often did not possess the same level of training and skill as those working in Area Brisbane's large debt team.

7.58 The ANAO noted that the training that Recovery Officers received also varied. In some Areas, Recovery Officers had not received training specific to their duties. At the time of audit fieldwork, there was also no national training course for Recovery Officers that offered a consistent certification of skills. However, Recovery Officers were able to access a national training package relating to telephone negotiation skills.

7.59 The lack of consistent training, as well as procedure, as with many other debt processes, means that the quality of outcome for a customer can depend on the Area in which he or she resides, and the particular officer they are dealing with. The ANAO notes that this means that some customers may well receive an inadequate level of service in some circumstances, and therefore this issue needs to be addressed as a matter of priority.

7.60 Centrelink is currently developing an accredited debt recovery training program in conjunction with the Centrelink virtual college. In April 2004, a draft training plan, leading to a Certificate IV in Government (Debt Recovery), was developed and comments from staff in Centrelink's network were currently being incorporated before the program was finalised and made available.

Recommendation No.9

7.61 The ANAO *recommends* that Centrelink continue with the development of:

- a national training program for Recovery Officers to provide consistency of approach as well as adequacy of skills, and which would support a high level of performance, throughout the Centrelink network; and
- debt recovery talk scripts for use by Recovery Officers, to improve consistency of advice and decision-making.

Centrelink response

7.62 Centrelink **agrees** with this recommendation. An accredited Certificate IV training package for debt recovery staff, including negotiation skills, is currently being developed. This training will complement the current debt raising and compliance training packages. This training will reinforce the debt recovery restructure that is being implemented by 1 October 2004. All debt recovery staff will receive targeted training by 1 October 2004. A talk script is under development and will be implemented by 1 October 2004.

Customer use of credit cards to repay Centrelink debts

7.63 The customer has a number of payment options. Accounts can be paid at a Post Office or at Rural Transaction Centres. Alternatively, Centrelink can arrange a direct debit from the customer's bank account or a voluntary deduction from the customer's wages. Customers also can pay by credit card. If customers ask for advice about how to arrange their finances in order to repay a debt, Centrelink's policy is to indicate that it is up to customers to decide how they will do this and suggest to customers that they can seek independent financial advice if they wish.

Area recovery staff practices in advocating the use of credit cards to repay debts

7.64 Following adverse media reports during mid-2003, Centrelink informed the ANAO that Recovery Officers were no longer offering the credit card option to customers unless the customer specifically requested it. However, during ANAO field visits in mid-to-late 2003, ANAO officers witnessed both Centrelink Recovery Officers and the mercantile agent's recovery staff offering the payment by credit card option to customers as a primary payment option, without first ascertaining the customer's circumstances.

7.65 Centrelink later advised the ANAO of a change of policy in March 2004, whereby Centrelink removed the facility for staff to accept credit card

payments. Customers who wished to access this payment option will be able to do so only through external providers (currently Australia Post). The ANAO did not test whether Centrelink's staff adhere to this new guideline as the change in policy occurred after the finalisation of audit fieldwork.

Mercantile agent's practices in advocating the use of credit cards to repay debts

7.66 The policy change introduced in March 2004 does not apply to the mercantile agent, which can continue to collect repayments from Centrelink customers via credit cards.

7.67 Given that the mercantile agent provides a recovery service only for people who are not in receipt of Centrelink payments, both Centrelink and the mercantile agent strongly believe that the mercantile agent should continue to provide information about all payment options to customers, including by credit card, but ensuring that credit card is offered last in the list and not encouraged above other methods. The mercantile agent advises that use of credit card is valued by customers in the workforce as a convenience and that further restriction would lead to considerable re-work and reduced efficiency and effectiveness for their operations. There are also concerns about adverse equity issues involved in reducing service options on the basis that a person was once a Centrelink customer.

7.68 The mercantile agent's management assured the ANAO, in late 2003, that its staff had been reminded of the need to offer credit cards only when requested by the customer; and that this resulted in a dramatic decrease in the number of credit card repayment arrangements with debtors.

7.69 The ANAO suggests that Centrelink and the mercantile agent continue to monitor adherence to this guideline.

Quality of customer service in recovering debts

7.70 One of the objectives of debt recovery by Centrelink is to recover money owing to the Commonwealth without causing 'real financial hardship' to the customer.¹⁰⁷ The ANAO attempted to assess whether Centrelink achieved this objective, and how it measures its success in this regard.

7.71 The ANAO found that Centrelink did not monitor, or measure, its customer outcomes for the recovery process. Accordingly, Centrelink was unable to ascertain whether or not it had met this objective.

7.72 As mentioned previously in this chapter, the lack of uniformity in recovery processes across different Areas produces an inconsistent approach to

¹⁰⁷ Centrelink document 107.11210 *Roles and quality service standards for Centrelink recovery staff*, op. cit.

recovery, and subsequently customer service. A good example of this can be found in the differing approach of Areas to the rate of recovering debts, especially large debts from people who are no longer Centrelink customers.

7.73 For example, in one Area it was common for collection officers to request a customer to consider mortgaging or disposing of their residential property to pay a large debt, whereas other Areas only regarded this as an absolute last resort. Centrelink has no mechanisms in place to monitor these sorts of variances in customer outcomes, and subsequent variances in customer service.

7.74 However, in March 2004, Centrelink reinforced with its recovery network that it is up to customers to decide how to arrange their finances in order to repay a debt and that recovery staff must not suggest to customers that they could consider mortgaging or selling their homes in order to repay a debt. At the same time, Centrelink advised its recovery network that effective immediately, a principal residence is exempt in all circumstances from consideration as an asset to support debt repayment.

7.75 Centrelink has now recognized the need for consistency in management of debt at all levels. Under the recovery reform process Centrelink has commenced, large debt management is to be centralised in two sites.

Future of recovery operations within Centrelink

7.76 In October 2003, Centrelink's Debt Services Team and Service Integration Shop presented a paper to Centrelink's Performance Managers Meeting, outlining a number of issues associated with Centrelink's debt recovery processes. This paper identified a number of shortcomings also observed by the ANAO in this audit. In particular, the paper identified:

- an inconsistent approach to recovery across the network;
- a low level of telephonic and Information and Technology resources available to Recovery Teams across the network;
- considerable difference in the performance of Recovery Teams across the network; and
- the need to better manage large debts.¹⁰⁸

7.77 In response to this paper, a further paper was presented to the Performance Managers' Meeting in November 2003, proposing reforms to

¹⁰⁸ Centrelink, 19 September 2003, *Debt Recovery Strategic Issues*, A paper for presentation to the Performance Managers' Meeting.

Centrelink's debt recovery structure and processes. A new recovery model was proposed which includes:

- three sites totalling around 138 staff, each with a team to answer inbound enquires through a virtual national enquiry queue and a team to undertake outbound reminder calls to non-current customers who owe between \$1500 and \$5000;
- two sites totalling around 56 staff, each with a team to manage debts \$5000 or more and a team to manage administrative support functions;
- streamlined management of cash repayment arrangements (similar to arrangements for withholdings) for debts \$1000 or less; and
- increasing the current \$500 auto-referral level to the mercantile agent to \$1500.¹⁰⁹

7.78 Centrelink estimates that this proposal will deliver an annual cost saving of \$640 000, and improvement in recovery outcomes of \$12.7 million. As well, improvements in telecommunications arrangements are expected to result in an increase in the number of calls answered.¹¹⁰

7.79 Another feature of the model includes streamlined arrangements, which currently apply to withholding cases, being extended to non-current customers with debts of less than \$1000 in value. This would allow many cash repayments to be made at first point of contact with Centrelink, rather than the customer specifically having to deal with a Recovery Officer. Specialist teams would deal with the larger debts, and the auto referral value for the mercantile agent would be increased from \$500 to \$1500.

7.80 The ANAO regards Centrelink's proposals to reform its recovery structure, if effectively implemented, as a significant improvement on its present operations. It represents a move from regarding the recovery process as an Area back-office function, to an important core business function.

Conclusion

7.81 Centrelink currently has inconsistent recovery structures and processes across its network. The ANAO found no clear national level approach to this important function. As a result, there were significant differences across the network in the levels of skills of Debt Recovery Officers, the likely levels of customer service, the quality of customer outcomes, and the performance of Debt Recovery Teams. The ANAO notes that the impending restructure of

¹⁰⁹ Centrelink, 20 October 2003, *Debt Recovery Strategic Reform*, A report commissioned by the Performance Managers' Meeting.

¹¹⁰ *ibid.*

Centrelink's recovery operations has the potential to considerably improve debt recovery practices and performance.

7.82 Centrelink's arrangement with its contracted mercantile agent, Dun & Bradstreet, is an effective way of recovering small to medium size debts, as well as older debts that are not cost effective for Centrelink to pursue. Dun & Bradstreet's superior technology and processes allowed it to further pursue these debts; and provide a valuable addition to Centrelink's recovery operations. As well, this contractual arrangement allows Centrelink to access some better debt recovery practices, which Centrelink should again review the merits of adopting, once it has restructured and centralised its debt recovery operations.

7.83 Centrelink should continue to monitor adherence to policy guidelines concerning the repayment of debts via credit cards, as the ANAO observed lack of adherence to relevant policy in place at the time of fieldwork. This applies to both Centrelink Recovery Officers and staff of the mercantile agent.

Canberra ACT
2 August 2004



P. J. Barrett
Auditor-General

Appendices

Appendix 1: Main characteristics of Centrelink customer debt

To understand the main characteristics of Centrelink benchmark customer debt,¹¹¹ the ANAO examined Centrelink's current debt base, and related information, focusing on:

- the magnitude of identified customer debt in Centrelink (that is, the number of current debtors and value of customer debt);
- the possible magnitude of unidentified debts;
- the scale of debt raising and recovery;
- reasons for debts;
- debt by social security payment programs;
- average size and age of debt; and
- recent trends in these parameters.

This appendix describes these characteristics of Centrelink benchmark debt, unless they are adequately covered elsewhere in the report.¹¹²

Estimating the magnitude of unidentified debts

While Centrelink had around \$1 billion in benchmark debt outstanding, at 30 June 2003, it was clear to the ANAO that this excluded many overpayments that had occurred but had not been identified by that date. Evidence supporting this view included:

- the high level of success of most Centrelink compliance programs (such as data matching programs) in identifying new debts, together with the opportunity to expand compliance efforts;
- the success of Service Profiling¹¹³ efforts in identifying new debts;
- the success of many debt prevention programs;¹¹⁴ and
- results of Random Sample Surveys (RSSs) undertaken by FaCS.

¹¹¹ Benchmark debt covers social security payments other than those related to Family Assistance Office reconciliations, as described in Chapter 1.

¹¹² In particular, Chapter 2 examines the magnitude of outstanding debt. Chapter 4 discusses reasons for debts.

¹¹³ Service Profiling is a means of identifying which Centrelink customers need a more targeted level of service to assist them in meeting program outcomes.

¹¹⁴ These programs are discussed in more detail in other Chapters. Chapter 4 discusses debt prevention programs. Chapter 5 covers Centrelink compliance programs, as well as Service Profiling.

The most practical way for the ANAO to estimate the level of unidentified debts was to use the results of recent RSSs. RSSs involve FaCS, through Centrelink, sampling a number of customers to verify their entitlements. While focussing on correctness of payments, RSS activities include the detection of instances where Centrelink is currently overpaying customers.¹¹⁵

RSSs are statistically valid, albeit relatively small, samples. They are now conducted on a rolling quarterly basis, sampling around 8700 customers in 2002–03. Samples cover all major FaCS payments,¹¹⁶ and minor payments over a three-year cycle. RSS figures are ‘raw’, in that they calculate the level of additional debt from the sample at a point in time.¹¹⁷

Estimating the value of ‘unidentified’ debt, using the RSS

The ANAO and FaCS extrapolated the debts identified in the RSS to the entire Centrelink customer population, to estimate the magnitude of additional ‘unidentified’ debts. While previous ANAO audits have identified problems with the RSS, which FaCS is still addressing, the ANAO considers that the RSS is suitable for this exercise.

Extrapolating RSS data suggested a range of between \$307 million and \$820 million in unidentified Centrelink social security customer debts, excluding Family Assistance Office debts (see Figure A1.1) depending on whether the mean or median values of debts were applied, respectively. RSS data indicates widely different mean and median values for debts.

The estimated \$307 million to \$820 million in undetected debt may well still represent an understatement. Debts identified through the RSS do not include many of the more sophisticated income checks that Centrelink undertakes as part of its compliance programs, such as asset reviews or cash economy reviews, nor some identity reviews that help determine eligibility.

The RSS results indicate that there are potentially an additional 600 000 debts yet to be identified. It is difficult to estimate how many additional debtors this represents, as many customers in the RSS population have multiple debts. As well, some of the debtors identified by the RSS would already have debts raised by Centrelink.

Officers from FaCS indicated to the ANAO that the existing control framework would identify a large proportion of such debts. The RSS results for payment variations (rate increases, decreases and cancellations) and debts are at a point

¹¹⁵ The RSS does not assess the accuracy of pre-existing debts for customers chosen for the survey.

¹¹⁶ Major payments are Age Pension, Youth Allowance, Parenting Payment (Single and Partnered), Disability Support Pension, and Newstart Allowance.

¹¹⁷ Centrelink may identify these overpayments through other means at a later date. This exercise simply aims to identify the magnitude of potential debt at a point in time.

in time or snap-shot estimate of inaccurate payments. Centrelink's control framework identifies over and under payments and debts over time as compliance or profiling reviews are completed. As well, customers' records are reviewed as a result of other processes. Therefore, a proportion of the undetected debts extracted by the RSS would flow into Centrelink's 'benchmark' debt.

However, FaCS was not able to provide the ANAO with an appropriate methodology for estimating the number and value of residual debts, that is, the debts that would not have been detected by the control framework. The ANAO has previously recommended that FaCS review its method for estimating the 'residual' inaccuracy. The ANAO notes that FaCS is currently addressing this issue.

Figure A1.1
Estimating unidentified debt using the Random Sample Survey, 2002–03.

	Rolling Random Sample 2002–03 ^a			Scaling factor ^b		Extrapolated debts ^c		
	Number of customers in sample	Number of debts	Value of debts (\$)	Number in population	RSS as a per cent of population	Number of debts	Value of debts – mean ^d (\$'000)	Value of debts – median ^e (\$'000)
Age Pension	1491	96	141,518	1,863,164	0.08	119,962	176,841	58,815
Disability Support Pension	1113	121	257,154	674,300	0.17	73,307	155,789	37,079
Newstart Allowance	1120	254	283,304	544,403	0.21	123,463	137,707	59,752
Parenting Payment Single	750	105	124,797	444,766	0.17	62,267	74,007	27,006
Youth Allowance	1484	300	429,727	393,014	0.38	79,450	113,806	50,613
Parenting Payment Partnered	731	171	304,659	189,979	0.38	44,441	79,177	47,526
Austudy	993	246	450,471	38,242	2.60	9,474	17,348	8,010
Special Benefit	503	58	180,887	12,388	4.06	1,428	4,455	1,836
Sickness Allowance	495	97	152,378	8,980	5.51	1,760	2,764	1,307
<i>Sub-total</i>	<i>8680</i>	<i>1448</i>	<i>2,324,885</i>	<i>4,169,236</i>	<i>0.21</i>	<i>515,552</i>	<i>761,895</i>	<i>291,945</i>
Other payments ^f				664,879		92,378	58,294	14,875
Total unidentified debt						607,931	820,189	306,820

Notes:

(a) Total number of reviews and associated RSS debts identified for the 2002–03 financial year.

(b) Scaling factor based on the number of RSS customer reviews by program, divided by the number of customers in population, as at Pay No.26, in June 2003.

(c) Extrapolated debts calculated by multiplying RSS data by the inverse of RSS share of population.

(d) Extrapolated debts calculated by using multiplying mean of RSS debts by the inverse of RSS share of population.

(e) Extrapolated debts calculated by using multiplying median of RSS debts by the inverse of RSS share of population.

(f) The above payments represented around 86 per cent of all Centrelink payments made on behalf of FaCS. The results were scaled up to incorporate these other payments, assuming an identical linear relationship.

Source: Data provided by FaCS, 2003.

Customer debt by social security payment program

The recent analysis of the debt base undertaken by Centrelink¹¹⁸ has clearly shown that the incidence of debt is strongly related to the type of payment customers are receiving (see Figure A1.2). That is, some programs have a much higher likelihood of debts and debtors than other programs. For example, Sickness Allowance customers have a much higher incidence of debt than Age Pensioners.

Figure A1.2

Centrelink outstanding FaCS portfolio debt, by program

	Value of outstanding debt 30 June 03 (\$'000)	Share of total debt (%)	Average debt per customer ^b (\$)	Average size of debt per debtor ^c (\$)
FaCS				
• Age Pension	65 729	6.8	36	3 293
• Disability Support Pension	112 553	11.6	169	2 970
• Sickness Allowance	8 002	0.8	847	1 815
• Newstart Allowance	285 471	29.5	534	899
• Parenting Payment Single	105 631	10.9	240	1 341
• Parenting Payment Partnered	53 126	5.5	272	1 186
• Youth Allowance	113 389	11.7	290	1 014
• Austudy	19 971	2.1	551	2 086
• Special Benefit	7 131	0.7	571	2 262
• Family Tax Benefit	24 039	2.5	8	461
• Other FaCS	172 643	17.8	291	3 175
Total	967 684	100.0	NA	1 312

Notes: (a) Value of outstanding debt as at 30 June 2003 divided by the value of payments for portfolio or program for the entire 2002–03 financial year.
 (b) Total value of debt divided by number of customers.
 (c) Total value of debt divided by number of customers with debts.

Source: Data provided by Centrelink, 2003.

The size of programs, in terms of the number of recipients and value of payments also influences debt levels. The large payment programs, especially

¹¹⁸ Centrelink 2003, *Analysis of Customer Debt in Centrelink*, op. cit.

Newstart Allowance and Disability Support Pension, have a relatively large dollar value of debts, irrespective of the incidence of debt.¹¹⁹

The value of debts per debtor also varies significantly between programs, particularly between 'non-stimulus' and 'stimulus' programs.¹²⁰ Debts for non-stimulus programs, typically are much larger than for stimulus payments. For example, Age Pension (a 'non-stimulus' payment, which rarely requires customer information on eligibility) experienced relatively high average debts per debtor—of \$3293 as at 30 June 2003. In contrast, customer debts for Newstart Allowance (a 'stimulus' payment where customers have to report earnings fortnightly) were relatively low—averaging \$899 as at 30 June 2003.

The substantial disparity in the incidence of debt by program highlights the need for Centrelink and FaCS to work co-operatively to minimise the impact of program design on customer debt levels. Further, the large average size of customer debts in non-stimulus programs highlights the danger, both to the integrity of Commonwealth outlays and Centrelink customers, of Centrelink using compliance systems that require infrequent reporting.

The ANAO recognises that FaCS and Centrelink are continually working together to provide advice to refine policies and also to improve the compliance regime (see Chapter 5).

Average size of debts

Centrelink's debt profile is characterised by:

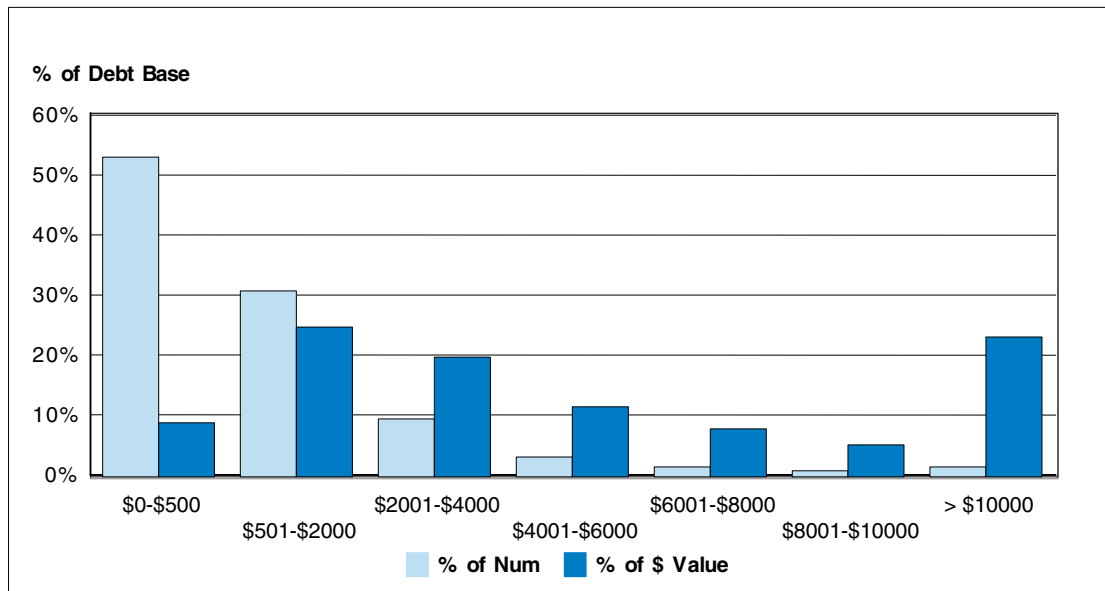
- a large number of small debts which have a relatively small financial value; and
- a small number of large debts that represent a significant proportion of the value of total debt (see Figure A1.3).

¹¹⁹ The incidence of debts is calculated as the value of outstanding debt as at 30 June 2003 divided by the value of payments for portfolio or program for the entire 2002–03 financial year.

¹²⁰ Non-stimulus program payments are made each fortnight without the need for customers to provide information (especially to complete an eligibility form). Conversely, stimulus programs require customers to provide information each fortnight in order to receive payments.

Figure A1.3

Proportion of debts by size and share of debt, at 30 June 2003.



Source: Data provided by Centrelink, 2003.

This profile presents differing debt prevention and recovery challenges. Typically, large debts are easier to prevent but more difficult to recover, while small debts are harder to prevent but easier to recover.

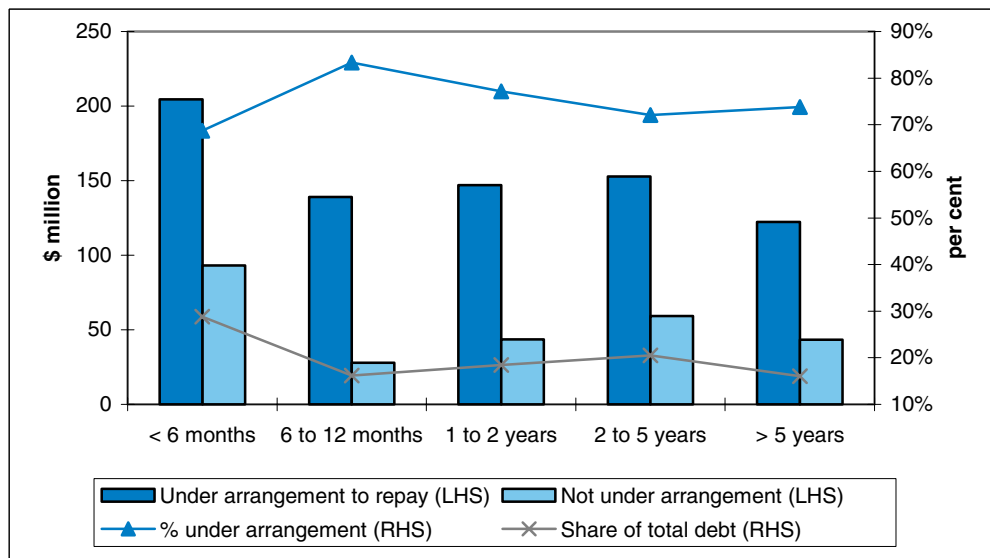
Centrelink recently flagged an intention to increase the focus on recovering large debts, through a major reorganisation of its recovery operations. As discussed in Chapter 7, the ANAO supports this approach but was not yet able to assess it, as the reorganisation and associated reforms had not been implemented at the time of audit fieldwork.

Average age of debts

While the majority of the total number of outstanding debts is less than a year old, a substantial proportion and value of debt is relatively old. For example, 37 per cent of the value of outstanding debt, as at 30 June 2003, was over two years old, representing around \$350 million (see Figure A1.4).

Figure A1.4

Age of outstanding customer debt, by value^a, at 30 June 2003.



Notes: (a) Includes temporary written off debt, but excludes Family Assistance Office reconciliation debt. LHS=left hand side. RHS=right hand side.

Source: Data provided by Centrelink, 2003.

However, around 73 per cent of this debt was under arrangement, leaving around \$100 million in outstanding debt over two years old that is not under arrangement. This proportion of debts under arrangement was similar to the average proportion of all debts under arrangement. Figure A1.4 shows that there is not a significant difference in the proportion of debts under arrangement, by age of debt, although relatively more debts of six to 12 months duration are under arrangement than debts of other timeframes.

Appendix 2: Administration of debt management in Centrelink

This appendix provides detailed information about the administration of debt management in Centrelink, especially:

- FaCS' and Centrelink's main debt management responsibilities and related activities;
- key Centrelink strategies, policies and processes for managing debt; and
- typical debt management processes in the Centrelink network—and the relationship with NSO.

Figure A2.1

FaCS' and Centrelink's main debt management responsibilities and related activities

Responsibility	FaCS	Centrelink
Overarching for debt		
Determine overall debt policy	Drafts debt provisions for the <i>Social Security Act 1991</i> and to update the <i>Social Security Guide</i> . Provides guidance and advice relating to many aspects of social security customer debt.	Developed and implementing <i>Debt Servicing Strategy</i> .
External performance monitoring	Sets Key Performance Indicators (KPIs) through the Business Partnership Agreement (BPA), and monitors performance. FaCS <i>Annual Report</i> provides details of the debt framework and broad data on debt performance.	Performance against KPIs in BPA. Centrelink <i>Annual Report</i> discusses debt management, and provides some data.
Internal performance monitoring	Monitors FaCS-specific programs. Also receives quarterly report from Centrelink on debt activity.	Reporting at various levels. For example, network performance reported to NSO monthly.

Responsibility	FaCS	Centrelink
Other reporting	No other formal, regular reporting to government and the community about social security debt, but regularly responds to Ministerial correspondence.	No debt measures in Balanced Scorecard.
Prevention and deterrence		
General framework for preventing debt	Through BPA encourages and monitors Centrelink performance. Includes identity checks, ensuring clients know their responsibilities, verifying key client information.	Undertakes many prevention and detection activities, as required under the BPA.
DPMO network—Debt Prevention and Monitoring Officers	Through the BPA, FaCS outlines the roles and responsibilities for DPMOs.	DPMOs prevent and minimise debt. Roles currently being revised, and subject to greater national office guidance.
Funding specific prevention programs	FaCS is responsible for taking forward Budget proposals developed in conjunction with Centrelink. Television communications campaign in 2002 a good example.	Mainly part of DPMO capability.
Research underpinning prevention programs	Significant work undertaken in late 1990s, and recently for Service Profiling. Conducting research into study related debt for Youth Allowance customers and the cash economy.	Comprehensive debt base analysis commenced in 2003.

Identification	Specific compliance program, especially data matching	Determine, fund through budget initiatives, set performance targets and monitor performance.	Undertake new budget initiated projects, continue other compliance projects under own resources.
Service Profiling		For payment accuracy, determine funding level, predictors, method of implementing, monitoring. FaCS does not determine strategies or predictors for Australians Working Together related profiling.	Implement Service Profiling throughout network.
Research programs	underpinning compliance	Research and analysis into: public and customer population behaviours and trends; impact of prevention, detection and deterrence measures; underlying rates of inaccurate payment.	Carries out pilots targeting key areas of risk and new data sources. Contributes to FaCS proposals for new initiatives.
Raising	Determining debt raising processes	Responsible for debt raising policy.	New policies underpinning specialist debt raising teams but not applied to compliance and international teams.
Monitoring regime for debt raising		One KPI on debt raising in BPA.	KPI with FaCS, Internal measures. All being revised.
Quality assurance for debt raising	None.		Mainly through Quality on Line (QOL), some sampling undertaken. Awaiting post-implementation review of move to specialist debt raising.

Responsibility	FaCS	Centrelink
Recovery		
Determining recovery processes	Responsible for debt recovery policy.	Proposals for major changes in recovery processing being considered, with greater specialisation of debt recovery.
Recovery through mercantile agent, Dun and Bradstreet	No responsibility.	Developed strategy. Contract in place.
Monitoring regime for debt recovery	One KPI on debt recovery in the BPA.	KPI with FaCS, internal measures. KPIs under review.
Quality assurance for debt recovery	None.	Mainly through QOL.
General processing of customer information		
Overall policies for accuracy and correctness of processing	The Outcomes and Outputs Framework provides a performance framework that aims to reflect the role of FaCS and Centrelink in achieving shared outcomes, including the accuracy of program outlays and effective customer servicing and support. Mainly target setting through the BPA.	Many processes and guides, especially <i>Getting it Right. Centrelink and the New Journey</i> .
Monitoring processing accuracy and correctness	Target setting through the BPA. Outputs and Outcomes measures in Portfolio Budget Statement.	Balanced Scorecard. FaCS and Portfolio Budget Statement measures and internal measures.
Quality assurance for processing accuracy and correctness	Random Sample Survey. Note: does not apply to debt.	Business Assurance Framework. QOL.

Source: Data provided by Centrelink, 2003.

Note: (1) See Figure A2.2, which explains many of these projects in greater detail.

Figure A2.2

Key Centrelink strategies, policies and processes for managing debt

Program	Objective / details	Status
Broad Centrelink strategies, policies and processes affecting debt management		
Getting It Right	Aims to improve payment correctness by ensuring Centrelink pays the right person, under the right program, at the right rate, from the right date, every payment.	These 'four pillars' underpin Centrelink processing of customer payments.
Centrelink compliance activities	Includes identity checks, data matching, tip-offs by the public, and risk-based customer reviews. Forms part of the <i>Centrelink Future Directions 2003-06</i> strategy.	Compliance programs have become more risk-based, and now involve Service Profiling. Centrelink increasing compliance activities.
Australians Working Together	Government package announced in the 2001–02 budget that aims to minimise social and economic exclusion. It also impacts upon a person's eligibility for income support.	Personal Advisers have been appointed. Use of Service Profiling for participation contact strategies and Working Credit has commenced.
• Service Profiling	A method for selectively targeting ongoing contact and services to Centrelink customers. Includes targeting for compliance reasons.	Began in 2002-003 and has been applied to ten payment programs.
• Working Credit	Provides a financial incentive for workforce participation and requires fortnightly assessment of employment income for all eligible payment types.	Began in September 2003.
Business Assurance Framework	Centrelink's multi-layered mechanism designed to assure stakeholders of the integrity and quality of Centrelink-delivered services. Stage 1, focussing on the integrity of social security outlays, includes Quality on Line (QOL) and the Random Sample Survey (RSS).	Currently under development. Stage 1 was implemented on 1 July 2002. Stage 2, focussing on non-income support related services, is scheduled for implementation during 2004.
• QOL	Internal quality control tool that involves checking of Centrelink processing, including debt raising, prior to finalisation.	Some QOL questions have been revised and QOL checkers better trained.

Program	Objective / details	Status
<ul style="list-style-type: none"> • RSS 	<p>Rolling survey of Centrelink's major programs to measure the levels of, and reasons for, incorrect payments.</p>	<p>Undertaken quarterly by Centrelink, on behalf of FaCS.</p>
Risk management	<p>Centrelink applies risk management principles to its activities.</p>	<p>Applied to all major activities, including specific debt activities.</p>
Customer satisfaction	<p>Centrelink undertakes a number of activities to manage the quality of services to customers, including a customer charter, measuring customer satisfaction, and operating a Customer Relations Unit.</p>	<p>Customer satisfaction policies apply to debt management, although no specific measurement of customer satisfaction with debt management processes is included in Centrelink's customer satisfaction survey.</p>
Information technology and communications (ITC)	<p>Centrelink's ISIS computing framework assesses customers for payment and updates user circumstances. Includes the Debt Management Information System (DMIS). Centrelink has other extensive ITC resources.</p>	<p>IT Refresh is updating many of Centrelink's computing functions, including planned improvements to DMIS in 2003–04.</p>
<p>Specific debt management strategies, policies and processes</p>		
Debt Servicing Strategy	<p>Provides direction and strategies for customer debt management issues.</p>	<p>Many elements are being implemented but some important elements have been superseded.</p>
Fraud Control Action Plans	<p>Outline processes to control fraud, consistent with Commonwealth guidelines.</p>	<p>Current Plans in place for 2002-04; new plans under development for issue in July 2004.</p>
Debt Prevention and Monitoring Officers (DPMOs)	<p>Aim is to promote debt prevention and raising quality throughout Centrelink. Undertake debt prevention and analysis projects.</p>	<p>DPMOs have been operating since 1997, with their role recently evolving to a greater focus on analysis and prevention than debt raising.</p>
Debt raising project	<p>Performance Managers' Meeting direction to the network, requiring specialist staff to raise debts.</p>	<p>Specialist debt raising teams have been implemented in all Areas. Post Implementation Review, due to commence in June 2004.</p>

Review debt recovery arrangements	Identify the key strategic issues for Area Recovery Team business and explore options for implementation that address those issues.	New strategy, and costing put to Performance Managers' Meeting.
Recovery through a private sector, mercantile agent	Contract in place with Dun and Bradstreet to collect selected Centrelink debts.	Dun and Bradstreet currently collecting Centrelink debts under specified criteria.
Development of program specific debt prevention policies	Centrelink is using results from Debt Base Analysis and other sources to tailor debt policies to program types in order to improve effectiveness and efficiency.	Reports have been completed with Families, ABSTUDY, Youth and Austudy to help structure prevention activities.
Review of debt KPIs	Need to improve external KPI measures in order to match desired outcomes, and drive behaviour appropriately.	Revised KPIs agreed as part of Alliance 2004.
Integrated Review System	Centrelink's new computer system for recording the outcomes of compliance and related activity.	Commissioned in 2002. Significant improvement on previous system for analysing impact of compliance and related activity.

Source: Data provided by Centrelink, 2003.

Figure A2.3: Typical debt management processes in the Centrelink network—and the relationship with NSO

Program	National Support Office	Area Support Offices	Customer Service Centres	Call Centres
General processing				
Processing customer information	Provide guidance (for example, <i>Getting it Right</i>), Business Assurance Framework, e-reference.	Specialist advice to network on National Support Office (NSO) directions.	Implement NSO and Area Support Office (ASO) policies and processes.	Implement NSO and ASO policies and processes.
Overall responsibility for debt				
Guidance and performance monitoring	Debt Services Team (and other teams) provide guidance and advice. Monitor debt performance for all Areas.	Monitor debt performance for all Customer Service Centres (CSCs) in Area.	Obligated to meet debt key performance indicators and internal targets.	None.

Program	National Support Office	Area Support Offices	Customer Service Centres	Call Centres
Prevention				
Debt Prevention and Monitoring Officers (DPMOs)	Leadership and co-ordination through Debt Services Team. Debt Services Team commenced a project management framework for DPMO projects nationally.	DPMOs are ASO employees, with NSO and ASO direction.	Out-posted to some CSCs but no line responsibility to CSC managers. Presentations and outreach to customers and third parties about debt prevention.	None.
Other specific prevention work	Debt Services Team commenced detailed analysis of debt database, and has commenced Area consultation on debtor analysis. Debt Services works in consultation with other Centrelink teams to develop debt prevention strategies.	Dependent on individual Area.	Seminars and advice to customers about debt prevention and customer notification obligations.	General debt prevention messages to customers.
Working Credit	Central rollout—implementing FaCS direction.	Co-ordinate selection and training of staff and provide guidance to CSCs on policies.	Deliver program.	None.
Identification				
Data matching	Profiling and Review Cluster arrange the matches (according to FaCS directions).	Specialist teams spread throughout network action cases identified by the Detection and Review Team.	None.	None.

Service Profiling	Customer Segment Teams provide guidance about resourcing and approach to payment accuracy, participation strategies and service updates. Service Integration Shop guides application of service strategies in the network.	Manage resources to CSCs.	Profiling interviews undertaken in CSCs.	Answering queries regarding the reason for generated contacts with Centrelink.
Other compliance programs (for example, identity checks and tip-offs)	Profiling and Review Cluster usually organise program or implementation in Area.	Depends on program, tends to specialise.	Identify checks in CSCs otherwise typically not involved.	None.
Debt raising				
Specialist debt raising teams	Project initiated by Debt Services Team, which provided detailed guidance choices.	Determine which debt raising model to use.	Raising generally undertaken at CSCs (few per area).	None.
Debt raised by compliance teams	Compliance teams expected to raise debts.	Raise debts. Not part of the recent push to monitor and improve accuracy.	Generally no compliance teams.	None.
Debt recovery				
Specialist recovery teams	Process, decision and performance support. Manage recovery system.	13 Area teams, but plans underway to centralise much more extensively.	Generally no recovery teams.	None.
Recovery by Customer Service Officers in CSCs and Call Centres as part of normal business	Provide recovery guidelines (for example, e-reference).	Manage repayment offers that do not fall within the CSC and Centrelink Call guidelines for acceptance.	Accept offers that fall within guidelines. Refer other cases to ASO.	Accept offers that fall within guidelines. Refer other cases to ASO.

Source: Data provided by Centrelink, 2003.

Appendix 3: Centrelink's and FaCS' responses to the audit

This appendix reports Centrelink's detailed response to the draft audit report provided to Centrelink. It reports Centrelink's full response to Recommendations 1, 2, and 8, which the ANAO has summarised in the body of the report. It also reports detailed comments against the paragraphs contained in the body of the draft.

This appendix also presents FaCS' full response to Recommendation No.2, which the ANAO has summarised in the body of the report.

Centrelink's detailed comments on the draft audit report

¹²¹ Of the amount of debt outstanding at 30 June 2003, 29 per cent related to debts that whilst they may have been identified since 1 July 1997, relate to overpayments that occurred before the inception of Centrelink. Only 51 per cent of the value of outstanding debts was owed by persons who were recipients of main Centrelink income support pensions and benefits at that time. The remaining 49 per cent of the amount outstanding was owed by persons who had subsequently moved off these payments.

Of the number of persons with outstanding debts at 30 June 2003, only 263 000 or 44 per cent were current Centrelink customers on main income support pension and benefit types.¹²² These debtors made up only 5.8 per cent of the total number of customers in receipt of these main Centrelink income support payments at that time.

12 Centrelink is a large decentralised network of 15 Areas and one National Support Office (NSO). National policies, performance standards and structures are mandated by decisions of the Performance Management Meeting (PMM), the membership of which includes NSO executives and Area Managers.

NSO's role is to provide national guidance and direction to the Area management through the development of key performance indicators (KPIs) and national strategies, underpinned with relevant management information and the establishment of structures appropriate to Area management achieving the necessary levels of performance. Area Managers have day to day responsibility for the delivery of services and the achievement of Centrelink's delivery objectives and benchmarks.

¹²¹ The ANAO has adjusted the paragraph numbers reported in Centrelink's detailed comments on the draft report, where necessary, to match the paragraph numbers in the final report, to aid readability.

¹²² Excluding Family Assistance Office payments and associated reconciliation debt.

Debt Services Team has utilised the PMM process to implement new KPIs for debt raising and recovery and will be working with FaCS to develop a performance indicator on debt prevention with an objective of implementing it for the 2005-2006 financial year. The team has sought and achieved PMM decisions on changes to Area structural and operational arrangements for both debt raising and debt recovery and agreement to the underpinning management information. The implementation of specific debt prevention strategies will also be progressed through PMM.

The PMM process obviates the need for NSO to mandate unilaterally Area activity or for NSO teams to micro-manage resource inputs at the local level.

2.14 Centrelink has recognised the fact that there is substantial disparity in the incidence of debt by program and is implementing program specific debt prevention strategies to deal with the specific nature and risk of debts within individual programs and customer groups.

The introduction of Working Credit has increased the requirement for customers to contact Centrelink to report their earnings prior to generation of payment.

2.25 The Alliance 2004 project has radically changed the FaCS/Centrelink relationship from one that has been largely input and process focused to one that is focused on achieving desired government outcomes.

The Alliance 2004 project has assisted in improving the communication channels between Centrelink and FaCS. The output measures are just stage one in the ongoing dialogue aimed at active management of the compliance and debt management framework.

Furthermore, the report developed by the Allen Consulting Group has resulted in further improvements to communications and information sharing between the two agencies.

Centrelink and FaCS will continue to foster open communications and information sharing on debt management issues.

6.56 Centrelink has placed a high priority on training for Compliance Review Staff. This is evidenced by the establishment of Area Compliance Review Learning Coordinators who monitor the learning needs of Compliance Review staff by linking staff with required training and monitoring progress through the training.

Centrelink will be implementing a module in the new Public Service Training Package, called 'Deal with Incorrect Payment and Debt'. This will be linked to technical training and adapted to Centrelink's requirements.

'Compliance Review Update', a regular newsletter distributed to Compliance Review staff and available on Centrenet, provides debt raising and other

related information. In addition, staff have access to e-Reference and other reference material.

6.59 The findings of the ABSTUDY review on the accuracy of debt raising by Compliance Teams cannot be extrapolated to other debt raising by Compliance teams, due to the complexity of the program and the lack of widely available skills in assessing ABSTUDY entitlements. As Centrelink is now moving to consolidation of the bulk of compliance review activity, it is reasonable to conclude that this will produce higher levels of accuracy.

6.70 The number of debts subject to a review lodged with an ARO or the SSAT represent only 1.4 per cent of debts raised. Furthermore, only 0.5 per cent of debts raised had the decision set aside or varied. It should also be noted, that the per cent of debt decisions affirmed by both AROs and the SSAT has increased over the last three years. This can be interpreted as an improvement in the accuracy of decision making by debt raising staff.

6.73 Online resources, such as e-Reference and the Guide to the Social Security Act, provide detailed guidance on waiving debts and therefore support Debt Raising Officers in making decisions on whether or not to waive a customer's debt.

7.19 Centrelink recognised, prior to the commencement of the audit, that there was a need to review the current Debt Recovery organisational arrangements to capitalise on opportunities to improve the efficiency and effectiveness of recovery operations. As part of this reform, Centrelink is in the process of consolidating the number of debt recovery units and accessing advanced telephone technology and other tools with a view to having new arrangements in place by 1 October 2004.

A key element of the reform of debt recovery is to implement more consistent debt recovery staffing structures in the network. The five sites will be call-networked using CTI telephone technology.

Another key element of the reform is the development and delivery of a Certificate IV training package for debt recovery staff. All recovery staff will receive training targeted at their particular needs. This training is expected to be delivered by 1 October 2004.

As part of the reform of debt recovery, Centrelink is implementing a talk script to improve consistency and quality of communication with customers, similar to the script used by Dun and Bradstreet. In addition, Centrelink is streamlining recovery of debts under \$1500 to improve customer satisfaction and simplify the process of accepting lower repayments for customers who are having difficulty meeting the standard repayments. Centrelink will be referring additional non-current customer debts to Dun and Bradstreet (the auto-referral level will be increased from \$500 to \$1500).

Centrelink's detailed comments on Recommendations 1, 2 and 8

Recommendation No.1

The ANAO *recommends* that, in developing a replacement for Centrelink's current *Debt Servicing Strategy*, the agency:

- continues to improve communication flows between teams within Centrelink responsible for debt prevention, identification and recovery; and
- aligns debt risks to compliance and service delivery risks, enabling greater efficiencies in debt management activities.

Centrelink response

Centrelink agrees with this recommendation.

The Debt Services Team will develop a debt management strategy that will incorporate the recently developed output measures for debt raising and debt recovery and a measure for debt prevention if that proves to be feasible.

The strategy will seek to maximise the potential of the new structural arrangement being put in place in the network and will be integrated with the compliance framework.

Centrelink's approach to debt prevention places a strong emphasis on ensuring, as much as possible, that customers are aware of their obligation to advise of any change of circumstances, and are enabled through being provided with a range of options to notify and are motivated to notify.

The Debt Services Team will work collaboratively with other Centrelink teams in developing the new Debt Management Strategy and seek to integrate all elements of debt management. Lessons learnt from compliance and prevention projects/activities will be incorporated into program management arrangements.

The strategy will build on the significant progress already made on improving communications across the various teams within the agency responsible for debt. The strategy will be developed and implemented under the direction of Centrelink's Steering Committee for the Integration of Department Management.

Recommendation No.2

The ANAO *recommends* that FaCS, in consultation with Centrelink, review the external performance monitoring regime for debt management in Centrelink to promote better practices and performance improvements. In particular, the ANAO recommends that the review consider the benefits of:

- replacing the current debt key performance indicators in the FaCS–Centrelink Business Partnership Agreement with indicators that measure the effectiveness of the four major phases of debt management (prevention, identification, raising and recovery); and
- revising the Outcome–Output measures in both FaCS and Centrelink Portfolio Budget Statements to encompass these measures, which would then be reported against in the agencies’ respective Annual Reports to the Parliament.

Centrelink Response

Centrelink agrees with qualification to this recommendation.

New Debt Raising and Recovery Output Measures have been developed and agreed by FaCS and Centrelink under the Alliance 2004 Outcomes Outputs Framework (OOF) for implementation from 1 July 2004. The relevant output measures are:

- Debt Raising: That debts determined be 65 per cent of the undetermined debt base; and
- Debt Recovery: The value of debts under recovery be 65 per cent of the debt base.

These new output measures have been agreed by Centrelink’s Performance Management Meeting to apply as internal output measures, underpinned by a comprehensive hierarchy of management information.

The debt raising output measure will overcome the deficiencies of the previous debt raising KPI. The new output measure will promote a consistent approach across the network to dealing with debts in a timely fashion. It will further reinforce the reform to debt raising activity and network structural arrangements that commenced in 2002, and be supported by IT enhancements such as the automated mainframe debt calculator.

The debt recovery output measure will better address the changing nature of the customer base and the changes over time to customer preference for repayment options. This output measure will be delivered by the five Areas into which debt recovery has been centralised, commencing from 1 July 2004.

Both output measures will provide a better focus for network activity and remain relevant irrespective of the level of compliance activity or savings measures initiated by the Client Department.

FaCS and Centrelink will agree, by 30 September 2004, to a Memorandum of Understanding (MoU) covering all of Centrelink's debt management activity. The MoU will include a mechanism for developing and reviewing output measures, including those specified in the development of the OOF. A key focus of the MoU will be the development of a framework for the management of debt prevention and Centrelink and FaCS will explore the feasibility of an output measure for debt prevention that can be included in the OOF for 2005–06.

Centrelink is currently looking at the feasibility of developing an output measure for debt prevention but has concerns that the development of a broader debt identification output measure that involves an overall dollar target for debt identification, has the potential to deliver perverse outcomes that run counter to the objective to prevent debt. The OOF has a compliance review benchmark that specifies the dollar value of total savings expected as a result of compliance reviews. This benchmark comprises both debt outcomes and prospective savings, so it is not solely a debt identification measure.

Recommendation No.8

The ANAO *recommends* that, to increase the efficiency and effectiveness of debt recovery operations, as well as customer service, Centrelink:

- proceed with the planned implementation of a nationally-based approach to its recovery operations, which provides guidance to Areas about recovery structures, processes and practices; and
- upgrade the recovery infrastructure, including the telephonic and online systems, to ensure customers can readily access Recovery Officers.

Centrelink response

Centrelink agrees with this recommendation.

As part of the debt recovery reform initiated in 2003, the following changes to Centrelink's debt recovery operations will be implemented by 1 October 2004:

debt recovery activity will be centralised into five Areas and will operate as one virtual team;

- all five sites will take inbound enquiries;
- a national '13' phone number for customers to contact Centrelink about their debts;

- three of the sites will manage debts between \$1500 and \$5000;
- two of the sites will manage debts of \$5000 or more; and
- auto-referral to the Mercantile Agent will be increased from the current \$500 to \$1500 to optimize access to telephonic technology, such as outbound dialer.

In addition to the above reform, Centrelink will continue to provide guidance via e-reference, regular teleconferences with Area Recovery Teams, and fortnightly newsletters clarifying and providing details of changes to policy and procedures.

Centrelink will use the debt recovery output measure to monitor debt recovery performance under this new arrangement.

FaCS' detailed comments against Recommendation No.2

The ANAO *recommends* that FaCS, in consultation with Centrelink, review the external performance monitoring regime for debt management in Centrelink to promote better practices and performance improvements. In particular, the ANAO recommends that the review consider the benefits of:

- replacing the current debt key performance indicators in the FaCS–Centrelink Business Partnership Agreement with indicators that measure the effectiveness of the four major phases of debt management (prevention, identification, raising and recovery); and
- revising the Outcome–Output measures in both FaCS and Centrelink Portfolio Budget Statements to encompass these measures, which would then be reported against in the agencies' respective Annual Reports to the Parliament.

FaCS response

Agrees with qualification.

After reviewing the appropriateness and effectiveness of performance measures in the FaCS/Centrelink Business Partnership Agreement, FaCS and Centrelink have agreed new KPIs for debt identification and debt recovery. These have been incorporated in the Outcomes and Outputs Framework and form part of the new 2004-2008 Business Alliance Agreement between FaCS and Centrelink.

As noted in the report, the Outcome and Outputs Framework will include KPIs relating to debt determined as a percentage of the undetermined debt base and the value of debts under recovery as a percentage of the debt base. These KPIs will provide administrative drivers that will ensure that Centrelink acts quickly to determine debts once they are identified and maximises the number

of debts subject to recovery action. These KPIs represent a substantial improvement over the KPIs they replaced, and will focus Centrelink activity on FaCS's objectives that debts are determined promptly and recovered efficiently.

FaCS and Centrelink are developing a MoU on debt management that will incorporate monitoring and reporting processes to facilitate effective assessment of Centrelink performance against these KPIs and to inform the development and review of new measures of performance. The KPIs on raising and recovery also will be reviewed each year for their appropriateness and effectiveness and revised as necessary.

FaCS will work with Centrelink to examine the feasibility of developing KPIs for debt prevention, identification and raising accuracy. However, FaCS notes that setting balanced KPIs for social security debt is extremely complex and requires robust data in order to be effective:

- each of the stages of the debt management process identified by the ANAO is affected by factors that are outside of the control of Centrelink (for example debt recovery is constrained by FaCS policy that reasonably limits the level and methods of recovery); and
- unintended consequences may be created if KPIs for prevention, identification, raising and recovery are not thoroughly researched (for example setting dollar targets for debt identification could undermine debt prevention objectives).

As a part of its overall responsibilities for debt policy, FaCS will continue to monitor levels of overpayment and debt to ensure that the control framework is operating effectively, conduct research into causes of debt, and develop strategies with Centrelink to minimise overpayments and reduce the level of customer debt.

Index

A

Administrative Appeals Tribunal,
(AAT) 57, 107, 109
Alliance 2004, 37, 50, 51, 53, 151, 154
Area Recovery Team, 44, 112, 115,
121, 123, 156
Area Support Office, (ASO), 17 28, 36,
44
Australian Customs Service, 84
Australian Federal Police, 84
Australian Taxation Office,
(ATO), 65, 84
Australians Working Together, 37, 46,
72
Authorised Review Officer, 17, 57, 109
(AROs), 104

B

Boston Consulting Group, 58
Business Assurance Framework, 37, 98
Business Partnership Agreement,
(BPA), 20, 141

C

Cash Economy Task Force, 74, 84
Centrelink Funding Model, 58, 81
Centrelink Integrated Review System,
79
Centrelink Internal Audit, 118-119
Compliance Officers, 17, 102-103, 110
compliance reviews, 16, 43, 78-79, 81,
83
credit cards, 17, 126, 129
customer initiated re-assessments, 16,
78

D

Debt Management Information System,
64, 87
Debt Prevention and Monitoring
Officers, (DPMO), 39, 44, 60, 68

Debt Recovery Officers, 17, 128
Debt Recovery Team, 115
Debt Services Team, 151
Debt Servicing Strategy, 15, 20, 26, 39,
40-41, 46, 59, 62, 63, 66-67, 75, 92,
93, 97, 141, 146, 153
Department of Immigration and
Multicultural and Indigenous
Affairs, 83, 84
Detection and Review Team, 42-43,
74, 83, 148

F

Family Tax Benefit, 13, 26-27, 31, 57,
59, 61, 87, 137

G

Getting it Right, 39, 46, 93, 147

H

Health Insurance Commission, 83

K

key performance indicators
(KPIs), 14, 20, 36, 37, 44, 50, 53, 147,
150, 154, 156

M

Multical, 96

N

National Tip-off Processing
(TIPS), 83

P

Parental Income Test
(PIT), 87
Personal Advisors, 72-73
program reviews, 15-16, 44, 77-79, 83

Q

Quality On-Line
(QOL), 98, 100

R

Random Sample Survey
(RSSs), 136, 144-145

S

scriptor, 96, 117
Service Integration Shop, 42, 43, 119,
127, 149
Service Profiling, 16, 38, 42-43, 60, 63,
65, 73-74, 77-79, 84-85, 89, 133,
142-143, 145, 149

Social Security Appeals Tribunal,
56-57, 105, 109
Specialist Debt Raising Officers, 99,
107, 109
Specialist Debt Raising Team, 93, 99
Strategic Cost Management
(SCM), 58-59, 81

V

Value Creation Workshop, 56, 64

W

withholdings, 55, 59, 111-112, 123,
128
Working Credit, 72-73, 85, 145, 148,
151

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